Planning for Resolution of Disputes in International Technology Transactions

Steven C. Nelson

Follow this and additional works at: http://lawdigitalcommons.bc.edu/iclr

Part of the Dispute Resolution and Arbitration Commons, and the Science and Technology Law Commons

Recommended Citation

Planning for Resolution of Disputes in International Technology Transactions

by Steven C. Nelson*

I. Introduction

While there are no objective criteria or statistical measures available to prove the point, it is apparent to those involved in the process that large international business transactions are increasingly based on technology. Such transactions depend for their economic viability on the successful transfer, further development, or exploitation of technology belonging to one or more of the parties. Large amounts of money, as well as the success or failure of substantial enterprises, are frequently at stake.

The increase in the importance and value of technology, in relation to other goods, has heightened the awareness of participants in this process to the unique legal problems associated with the use of, and transactions in, technology. Litigation over failure of technology to perform as promised, improper or unauthorized use of technology, and theft of technology is increasing more rapidly than litigation in general. A major reason for much of this litigation is that significant areas of uncertainty remain in the law, even in the domestic law of the United States, with respect to rights in and relating to technology.

The foregoing considerations suggest that the international practitioner will increasingly deal with both the possibility and the reality of disputes relating to technology. Indeed, the thesis of this paper is that no agreement for the international transfer of technology, however skillfully crafted in other respects, should be considered adequate unless and until it incorporates carefully thought out provisions for the resolution of disputes. In exploring that proposition, section II of this paper reviews briefly the major impediments to the efficient and effective resolution of international commercial disputes, first in general and then more specifically in relation to international transactions in technology. The author considers the principal objectives that should guide the process of planning for resolution of the latter type of dispute in section III. Finally, the paper addresses the advantages and disadvantages of the various forms in which such dispute-resolution procedures may be cast.

* Partner, Oppenheimer, Wolff, Foster, Shepard and Donnelly, Minneapolis/St. Paul, Brussels, and Washington, D.C.; Adjunct Professor of Law, University of Minnesota Law Center; Chairman, Committee on Technology Exchange, American Bar Association Section of International Law and Practice; B.A. and LL.B., Yale University.
II. THE NEED TO PLAN FOR DISPUTE RESOLUTION

The principal reasons for advance planning of the resolution of disputes in international technology transactions are essentially twofold. First, dispute resolution in the absence of such planning may be cumbersome, time-consuming, and destructive of the commercial relationship and will almost certainly be expensive. Second, the results of unplanned dispute resolution may be highly unpredictable, increasing the difficulty of amicable settlement.

A. Dispute Resolution in International Transactions Generally

Some of the factors that contribute to the difficulty and uncertainty of unplanned dispute resolution are common to all substantial international commercial transactions. They include the potential for forum-shopping and multiple proceedings, the difficulty of enforcing international judgments, the possibility of an unintentional application of public policies, and the high costs of international litigation and arbitration.

Because of wide variations in the substantive laws, public policies, and procedures in force in different countries, each party to an international commercial dispute may perceive material advantage in the selection of one available forum over another. Since no internationally accepted rules allocate among the national court systems primary adjudicatory jurisdiction over specific disputes, proceedings in any given case may be commenced in two (or more) countries simultaneously. Moreover, courts generally will not stay their own proceedings because of the pendency of foreign proceedings. The frequent consequence is multiple proceedings in the courts of two or more countries in the same dispute.

Even when proceedings are confined to the courts of one country, the resulting judgment may be unenforceable in the courts of other countries. No commonly accepted principles of international law govern recognition and enforcement of foreign judgments, beyond the fundamental rule that no country recognizes or enforces the judgment of another country rendered without jurisdiction over the judgment debtor. Recognition and enforcement of foreign judgments by U.S. courts depend solely on standards of comity, which have not been fully or consistently defined. Conversely, nonrecognition of judgments

1. Even those who argue that there are internationally recognized limits on the exercise of adjudicatory jurisdiction (as distinguished from the jurisdiction to prescribe and to enforce) acknowledge that such jurisdiction may be based on any of several relationships to the forum state. See Restatement (Revised) of the Foreign Relations Law of the United States §§ 401, 441 (1981).
3. A vivid description of such proceedings in one dispute is described in the court's opinion in Hunt, 492 F. Supp. at 888-90.
abroad is probably the rule rather than the exception. Only one major multilateral convention is in force on the recognition and enforcement of foreign judgments, to which the United States is not a party.

Differences in public policy from one forum country to another can be substantial, reflecting, among other things, policies established through the legislative process. Such differences in policy may result in non-enforcement of contract provisions on grounds completely unrelated to the contractual intent of the parties or even the inherent fairness of the transaction. Many of these public policies may also be barriers to recognition and enforcement of a foreign judgment or arbitral award in a given forum.

In addition to the extra expense occasioned by multiple proceedings and international enforcement procedures, international litigation is made more costly by the frequent need for counsel in more than one country, as well as by the additional time and travel necessitated by the distances involved. Differences in national procedures for discovery and the taking of evidence frequently add cost as well as delay to the proceedings. International arbitration, while advantageous in many respects, may be at least as expensive as litigation.

B. Special Problems in Resolving International Technology Disputes

The foregoing problems in the resolution of international commercial disputes are well-known and to a large extent self-evident. When the dispute arises out of a transaction involving an international transfer of technology, however, the problems are likely to be compounded by a number of factors, much subtler in nature, which frequently characterize that particular kind of dispute. These factors include conflicts-of-law issues peculiar to the determination of rights in technology; the very high level of governmental interest in and regulation of

---


8. A pertinent example may be found in article 85(2) of the Treaty of Rome, which renders null and void any agreements that may affect trade between member states of the European Common Market and that has as its object or result the prevention, restriction, or distortion of competition in the Common Market. The separability of the offending provision from the remainder of the agreement is determined according to applicable national law, thus potentially producing different consequences in different countries of the Common Market; see Societe Technique Miniere v. Maschinenbau Ulm, [1966] E. Comm. Ct. J. Rep. 235.

9. See generally von Mehren & Patterson, supra note 5.

10. See infra § III.B.


12. Id. at 226-27.
technology flows, both inward and outward; and the relatively long-term nature of the commercial relationships implicit in the process of technology transfer.

Technology transfer agreements generally are premised on the existence of certain protections for intellectual property that exist independently of the contract. The entire notion of a license presupposes the existence of the legal right of the licensor, to prohibit the licensee, absent the license, from using the technology. That right, which is created under applicable national laws, may vary in nature and scope from one country to another. The national law under which the licensed right is created may differ from the "proper" law of the license agreement.

The transfer of technology involves a variety of public policy issues to which governments are highly sensitive. The Western developed countries closely regulate the exportation of technical data that may have broadly defined military applications. The United States sometimes restricts exportation of technology, as well as re-exportation of the products of that technology, on foreign policy grounds not directly related to national security. Governments act with broad and largely unreviewable discretion in this area. In addition, the developed countries regulate the terms and conditions of technology transfer with a view to the preservation of competition and, in some cases, industrial-planning strategies. In the United States, an extensive body of case law has developed on the various restrictions in patent and know-how licensing. The competition law of the European Economic Community, while less well-developed in this area, also creates potential problems for the operation and enforcement of technology transfer agreements, which may affect trade between member states of the European common market. Japan also has laws regulating the content of

13. See further L. Eckstrom, Licensing in Foreign and Domestic Operations § 1.01 (1983).
15. The U.S. Department of Commerce, under the Export Administration Act, defines "technical data" subject to export controls as follows:
"Technical data" means information of any kind that can be used, or adapted for use, in the design, production, manufacture, utilization or reconstruction of articles or materials. The data may take a tangible form, such as a model, prototype, blueprint, or an operating manual; or they may take an intangible form such as a technical service.
technology transfer agreements from the standpoint of their effect on competition.20

Finally, the developing countries regulate inbound technology transfers, controlling primarily the terms of trade. The objectives of such regulation include reducing outbound payments for royalties and technical assistance, increasing local control over the process of industrialization, increasing the quantity and value of high-technology exports, and monitoring technology transfer patterns.21 In addition, the developing countries have pressed for changes in the existing international legal order that would further these objectives.22

Inherent in the process of transferring technology is the need for continued cooperation between the parties over a relatively extended period of time. The initial transfer and implementation of the technology frequently require not only the delivery of documentation but also the provision of technical assistance and training, frequently over a long period. In addition, the transferor is sometimes obligated to provide information and assistance relating to improvements in the technology developed after the initial transfer. Finally, in some cases the technology transfer is carried out within the framework of a joint venture agreement under which the transferor retains both a degree of control over and responsibility for the implementation and use of the technology. The contractual relationships in each case may continue over a period of years.

The potential subjects of dispute in a technology transfer include, in addition to ordinary questions of contract law, issues that are highly technical in nature. These issues include such questions as whether a device manufactured or process used by one of the parties or a third party infringes a patent or trade secrets that are the subject of the technology transfer agreement, or whether a failure to implement the technology successfully is the fault of the transferor or the transferee.

While a license to exercise rights in technology may lapse in the event of a material breach by the licensee of the technology transfer agreement, or otherwise become unenforceable, the information and knowledge (once disclosed) are irretrievably in the hands of the transferee. Moreover, litigation concerning rights in unpatented know-how may result in disclosure, possibly public, of the very know-how for which protection is sought.

III. Principal Objectives Of The Planner

With the major sources of difficulty and uncertainty in the resolution of disputes arising out of international technology transactions identified, this

20. Uesugi, Transfer of Technology and Joint Ventures in Japan, in Hawk, supra note 18, at 347.
22. See generally Davidow, United Nations Rules for the Transfer of Technology, in Hawk, supra note 18, at 297.
paper will outline the major objectives that should guide the planner seeking to avoid those pitfalls.

A. Prevention of Multiple Proceedings

To minimize the risk of multiple proceedings with potentially inconsistent results, the parties should select a single, mutually agreeable forum for the resolution of any disputes. The forum selected should be chosen carefully to ensure that it will in fact exercise jurisdiction and that the forum-selection will be recognized and enforced by the most likely alternative fora, without a need for further proceedings on the merits of the selected forum's decisions.

B. Minimizing the Adverse Impact of National Policies

The law of the selected forum should be reviewed to ensure that public policies of the forum will not interfere with enforcement of the agreement as intended by the parties. To the extent that unintended application of national public policies cannot be avoided through choice of the forum, for example, when the government of one party imposes sanctions on that party for violation of national laws, the parties should agree upon remedies enforceable in the chosen forum that will permit equitable adjustments to the relationship.

C. Preserving the Commercial Relationship

One of the principal faults of conventional third-party dispute-settlement procedures is the tendency of business people to withdraw from the process and leave the lawyers to seek a legal outcome in a “win-lose” contest, which is usually destructive of the commercial relationship between the parties.23 The planner should structure dispute-resolution procedures that, by bringing senior management personnel into the process in an affirmative manner, will enhance the prospects for a commercial resolution based on a better appreciation by each party of the other party's position.24

The prospects for a commercial resolution are generally enhanced if the proceedings are, at least initially, relatively informal. Non-binding preliminary proceedings, perhaps coupled with a “cooling-off” period to permit each party to review its position, should be considered in planning dispute-resolution procedures.25

23. Olson, Dispute Resolution: An Alternative for Large Case Litigation, 6 Litigation 22, 24 (1980); see also Perlman & Nelson, supra note 11, at 216-17.
25. Significantly, some of the most successful domestic experiments to date with such procedures have been carried out in connection with technology-related disputes. See Green, Marks & Olson, Settling Large-Case Litigation: An Alternate Approach, 11 Loy. L.A.L. Rev. 493, 501-11 (1978), describing the use of a "mini-trial" in connection with the TRW-Telecredit patent infringement litigation; see also
D. Achieving Predictability

Given the technical nature of many of the potential disputes in technology transactions, the optimal dispute-resolution mechanism is designed to ensure that the eventual decision-maker will understand not only the legal issues but also the complex factual questions relating to the specific technology involved. In international transactions the individual selected should have extensive background in the business and legal cultures of both disputants. Because of the long-term nature of many international technology transfer relationships, and in light of the frequent impossibility of anticipating all possible problems in the initial agreement, it may be advantageous to create a private "rule-making" mechanism using a single pre-selected referee to decide all disputes arising during the course of the relationship. This arrangement permits the decision-maker to develop a full understanding of the business relationship as it develops over time. At the same time it obviously calls for a decision-maker in whom the parties have a high degree of confidence.

E. Preserving Confidentiality

The transferor of technology normally will want to minimize the likelihood of having to disclose, in the course of discovery, information related to unpatented trade secrets and will thus generally prefer to avoid forums in which discovery may be intrusive. It is difficult, however, to anticipate in advance which way the sword of discovery may cut. For example, where the dispute concerns possible misuse of transferred technology, the transferor may be the party requiring extensive discovery to prove its case. Furthermore, description of unpatented processes in judicial decisions that enter the public domain may result in the loss of trade secret protection. Although courts usually are sensitive to this possibility, parties are not able to control the content of judicial decisions.

Legal Times of Washington, Oct. 24, 1983, at 48-49, describing the resolution of a contract dispute involving difficult issues of technical and economic feasibility. For a discussion of some of the principal variations on the "mini-trial" concept, see Perlman & Nelson, supra note 11, at 233-35.

26. The success of the TRW-Telecredit experiment was clearly due in significant part to the knowledgesibility of the neutral "advisor," a former judge of the court of claims with recognized expertise in patent law. See Olson, supra note 23, at 22, & 24.


28. Id. at 15-16.

29. Id.

30. The problem of disclosure and protection of trade secrets incident to litigation is discussed at length in Milgrim, Trade Secrets, in 12 BUSINESS ORGANIZATIONS § 7.06 (1983).

31. Id. at § 7.06[2].
IV. Principal Structural Options

There are essentially three forms in which planned dispute-resolution procedures can usefully be cast: litigation in a mutually-agreed judicial forum, arbitration, and proceedings before a governmental board or commission. The last of these would typically be used only in contracts with governmental agencies.

A. Contractual Selection of a Judicial Forum

Although forum-selection clauses are used infrequently, possibly because of the difficulty of agreement on a forum that both parties consider neutral, inclusion of such a clause is clearly preferable to the lack of dispute provision and should be considered with due attention to certain advantages and disadvantages. The principal advantages are the general enforceability of the resulting judgment, possible inflexibility in the procedural rules of the forum, and uncertainty as to the ability of the trier of fact to deal with complex technical issues.

As a general matter, courts of most developed countries will give effect to a contractual clause designating the courts of another country as the exclusive forum for any disputes. Courts are increasingly willing to recognize and enforce such clauses when the transaction is international in character, at least so long as the enforcement of the clause does not contravene a substantive rule of public policy specific to the dispute in question. The selected forum need not have any nexus to the transaction to make the clause enforceable, since consent is an independent ground of jurisdiction. Moreover, having agreed to the forum in advance, the parties are generally estopped from invoking forum non conveniens.

Ultimate enforcement of the judgment rendered in the chosen forum may be more problematic. While the courts of most developed countries will not refuse recognition of a foreign judgment for lack of jurisdiction, if jurisdiction is based on consent of the parties and the parties possess equal bargaining strength, not all countries necessarily adhere to this rule. In fact, there is reason to believe that many of the developing countries would refuse to recognize a choice-of-forum clause in a technology transfer agreement if the selected forum had no...
real relationship to the contract. 38 Even when the basis for jurisdiction is recognized, many courts will refuse to recognize a foreign judgment if they conclude that the foreign court has failed to apply the proper law to the dispute; 39 this may be of particular concern in relation to disputes arising under technology transfer agreements, given the sometimes-difficult choice-of-law issues that may arise. 40

In addition, even in those countries that accord the broadest recognition to foreign judgments, recognition may be denied on grounds of incompatibility with the public policy of the forum in which recognition is sought. 41 When neither party is a national of the forum state and the interests of that state are not otherwise directly involved, the review of a foreign judgment for compatibility with public policy may be limited to the question of compliance with internationally recognized principles of procedural fairness. 42 If, however, recognition would contravene public policies of direct interest to that state, it would in most cases be denied. 43

Public policies in force in states other than the selected forum will generally not be given effect by that forum except under its choice-of-law rules. It is, of course, important to ensure that the selected forum will give effect to the law chosen by the parties as the proper law of the contract, as well as that it will regard all potential disputes as contractual in nature. In addition, remedies should be so structured that they are effective even without recognition by the courts of a country that would not recognize the parties' choice of law or whose public policies would preclude recognition. 44

To the extent that the parties want to establish special dispute-settlement procedures that are preliminary to or in lieu of ordinary court proceedings, care must be taken to ensure that these procedures will be compatible with the procedural laws of the forum. Important concerns include the enforceability of agreements on the exclusion from evidence of information exchanged in infor-

38. In negotiations within the United Nations Conference on Trade and Development (UNCTAD) on the proposed International Code on the Transfer of Technology, the Group of 77, a group of less-developed countries, has argued that matters of public policy involved in a dispute under a technology transfer agreement must be decided in the courts of the technology-acquiring country and that a forum-selection clause in such an agreement must have a "direct, effective and permanent relationship" with the agreement. Wilner, Applicable Law and Dispute Settlement in the Transfer of Technology Code, 1983 J. WORLD TRADE L. 389, 392.

39. This is particularly true of courts in civil-law countries; see von Mehren & Trautman, Recognition of Foreign Adjudications: A Survey and a Suggested Approach, 81 HARV. L. REV. 1601, 1636-55 (1968).

40. See supra § II.B; see generally Modiano, supra note 14.

41. See von Mehren & Patterson, supra note 5.


43. Cf. RESTATEMENT (REVISED) OF THE FOREIGN RELATIONS LAW OF THE UNITED STATES § 492(2)(d) and reporter's note 1 (Tent. Draft No. 4, 1983).

44. The considerations set forth in § III supra would apply here as well.
mal, non-binding proceedings or, conversely, the admissibility of such information; the compatibility with the law of the forum of any discovery contemplated by the agreement; and the admissibility of and weight to be accorded the views of any neutral "advisor" or expert who may be involved in the special proceedings. Since such procedures are relatively untried in international dispute resolution outside the framework of formal arbitration, it may be difficult to ascertain in advance how well they will work in a specific legal context. Their use may also create problems of recognition in foreign courts, since one criterion applied by most courts in determining whether to recognize a foreign judgment is whether the procedures utilized were fair and adequate. A departure from the ordinary procedures of the rendering jurisdiction may negate the normal presumption that, if the regular procedures of the rendering jurisdiction have been adhered to, the proceedings have been fair.

Except to the extent that knowledgeable neutral advisors or experts are used as part of the process, judicial fora cannot be relied upon to provide decision-makers who possess any particular level of expertise in technical matters of concern to the parties.

B. Agreement to Arbitrate

The most frequently used form of dispute-resolution procedure is the arbitration agreement, which has a number of clear advantages and some drawbacks. The major advantages are a relatively well-defined legal structure for international enforcement of arbitration agreements and arbitral awards, considerable insulation from the application of national public policies extrinsic to the intentions of the parties, procedural flexibility, free choice of decision-makers, and confidentiality. Disadvantages include additional costs and less effective tools of discovery.

Because many states, including the United States and most other major trading nations, adhere to the 1958 Convention on the Recognition and Enforcement of Foreign Arbitral Awards, agreements to arbitrate and awards rendered in such arbitrations now enjoy widespread international enforceability.

45. See Perlman & Nelson, supra note 11, at 237-41.
46. See von Mehren & Trautman, supra note 39, at 1662-65.
47. See, e.g., Dunstan v. Higgins, 138 N.Y. 70, 74; 33 N.E. 729, 730 (1893). The leading U.S. case authority states that, to be entitled to recognition, a foreign judgment must have been rendered after "a full and fair trial abroad before a court of competent jurisdiction, conducting the trial upon regular proceedings" Hilton v. Guyot, 159 U.S. 113, 202 (1895) (emphasis added). At least until recently, failure of a foreign court to comply with its own procedures has been a defense to enforcement of the resulting judgment in the French courts. See P. Herzog, Civil Procedure in France 590-91 (1967).
As a result, a properly-drawn arbitration clause can significantly reduce the risks of forum-shopping and multiple proceedings in disputes under technology-transfer agreements.

Under the Convention, the courts of states party to the Convention are required, if proceedings are brought before them in a matter governed by an arbitration agreement, to refer the parties to arbitration. These courts are further obligated to recognize as binding and to enforce arbitral awards covered by the Convention, subject only to certain clearly-defined grounds on which recognition and enforcement may be refused. Many states party to the Convention, including the United States, have entered a reservation, expressly permitted under the Convention, which limits its application to awards rendered in the territory of the other states party. Accordingly, to be useful in connection with a specific technology transfer agreement, an arbitration clause should generally provide for arbitration in the territory of a state party to the Convention, and remedies should be structured in such a way as to not require enforcement by the courts of states not party to the Convention.

One of the recognized advantages of arbitration, rather than judicial procedure, is that arbitrators have no public policies extrinsic to the agreement of the parties that they must enforce. Arbitrators are much more likely than courts to apply the law selected by the parties regardless of any choice-of-law principles that might preclude such application under the laws of the place of arbitration.

Precisely for these reasons, many national legal systems treat as non-arbitrable certain kinds of disputes having a high public-policy content. Disputes as to the validity of a patent, which many countries, including the United States, regard as non-arbitrable, and antitrust claims or counterclaims, which are more problematic, are particularly pertinent to a discussion of technology transfer. The decision of the United States Supreme Court in Scherk v. Alberto Culver & Co.,

50. New York Convention, supra note 48, at art. II(3).
51. Id. at art. III.
52. Id. at art. V.
53. Id. at art. I(3).
57. Compare Applied Digital Technology, Inc. v. Continental Casualty Co., 576 F.2d 116 (7th Cir. 1978), and Power Replacements, Inc. v. Air Preheater Co., 426 F.2d 980 (9th Cir. 1970) with Dickstein v. duPont, 443 F.2d 783 (1st Cir. 1971). German theorists suggest that antitrust claims either are non-arbitrable or require careful review of the arbitral award at the enforcement stage. See Baermann, Limits of Arbitral Jurisdiction, in 2 International Commercial Arbitration, Documents and Collected Papers, Part I at 40, 47 (C. Schmitthoff ed. 1980) [hereinafter cited as Schmitthoff].
however, stands for the proposition that, in light of the strong policy favoring international arbitration embodied in the New York Convention, issues that would be non-arbitrable domestically may be arbitrable when the underlying transaction is "truly international" in character. 59 French courts have reached similar results. 60

It remains to be seen whether and to what extent courts in other countries will follow the U.S. Supreme Court's reasoning in Scherk. 61 Nonetheless, recent legislative developments in France 62 and the United Kingdom 63 suggest that countries desiring to enhance their reputations as centers of international commercial arbitration are increasingly likely to restrict judicial intervention in arbitral proceedings of an international character 64 carried on in their territories. Similarly, in light of the strong Swedish policy favoring autonomy of the arbitral process, it seems unlikely that Swedish courts would interfere with arbitration of a dispute under a technology transfer agreement on substantive grounds. 65

That arbitration may be permitted to go forward does not, of course, imply that the resulting award will necessarily be enforceable. Under the New York Convention, recognition and enforcement of a foreign arbitral award may be refused on grounds either that the dispute is not arbitrable under the law of the country in which recognition and enforcement are sought 66 or that recognition and enforcement would be contrary to the public policy of that country. 67 However, there is authority to the effect that those grounds should be construed narrowly, 68 and, to the extent a country follows this interpretation of the Con-

59. Id. at 515.
61. DELAUME, supra note 60, at 27-29.
64. A commercial arbitration in France is not deprived of its international character by the fact that one party is a French national. See AKSA v. Norsolor, Judgment of 9 December 1980, Cour d'appel, Paris (1980) (English translation of the judgment appears at 20 Int'l L. LEG. Mat'ts 887 (1981)). Similarly, the British Arbitration Act 1979 permits the judicial review on the merits of the agreements; "domestic arbitrations" are defined as arbitrations involving only nationals or residents of the United Kingdom. Arbitration Act 1979, §§ 3(6), 3(7).
68. In Parsons & Whittemore Overseas Co. v. Societe Generale de l'Industrie du Papier [RAKTA], the court
vention, arbitral awards may be more readily recognized and enforced in the face of national public policy objections than a foreign judgment would be. More importantly, under the laws of many countries, the arbitrators need not state any reasons for their awards, at least if the parties have so agreed. To the extent that the law of the jurisdiction in which an award is rendered permits this, other states party to the Convention appear to be obligated to recognize and enforce the award, at least unless it could not have been rendered except on a basis incompatible with overriding public policy.

One of the cardinal features of arbitration is its flexibility. That flexibility is of value to the extent that the parties are willing to devote the time and effort required to develop a structure that meets their needs; otherwise, arbitration has many pitfalls for the unwary, and a judicial forum selection clause may be a preferable solution. However, for parties desiring to provide for alternative procedures tailored to their specific situation, commercial arbitration provides an ideal framework.

The ability of the parties to select arbitrators who are well-equipped to deal with the issues specific to their dispute is a principal element of flexibility in commercial arbitration. Arbitrators need not be lawyers, and the common use of panels of three arbitrators permits the inclusion of technical as well as legal experts. It is highly preferable, however, that the arbitrators be appointed in advance if possible, bearing in mind the need to obtain their agreement to act as such.

When the technology transfer agreement contemplates a long-term relationship and it is impossible to resolve all future issues at the outset, the arbitral

---

held that, under the New York Convention, recognition and enforcement of a foreign arbitral award may be denied on public policy grounds "only where enforcement would violate the forum state's most basic notions of morality and justice." 508 F.2d 969, 974 (2d Cir. 1974). The court further held that refusal to enforce on the ground of non-arbitrability must be limited to claims in which there is a "special national interest in judicial, rather than arbitral, resolution." 508 F.2d at 975. This language must be read, in light of Scherk v. Alberto Culver & Co., 417 U.S. 506 (1974), as excluding non-enforcement for failure of the arbitrators to give effect to regulatory laws when the national interest of the enforcing forum is not compelling. See generally Note, The Public Policy Defense to Recognition and Enforcement of Foreign Arbitral Awards, 7 CALIF. W. INT'L L.J. 228 (1977).


70. A reading of the Convention permitting non-enforcement of awards solely on the ground that no reasons were given would significantly undermine the enforceability of awards rendered in common law countries, including the United States and the United Kingdom, which do not require that reasons be stated in the award. The laws of certain civil law countries appear to permit such enforcement, even though an unreasoned award would be invalid if rendered in their territories. See Sanders, Appeals Procedure in Arbitration, in 2 Schmitthoff, supra note 57, at 91, 102-03.

71. See generally Higgins, Brown & Roach, supra note 54.


73. See Perlman & Nelson, supra note 11, at 241-43.

74. See Ehrenhaft, supra note 56, at 1202.
framework may be utilized to enable the same decision-makers to be used for all disputes. In addition, arbitration may enable the parties to resolve serious problems without lasting damage to the commercial relationship.75

Arbitration generally does not involve discovery as extensive as that afforded in U.S. judicial proceedings. While this can be a significant drawback to arbitration,76 it may be an advantage to a party concerned about being required to disclose trade secrets. Moreover, arbitral awards are themselves confidential and not matters of public record, which lessens the risk of public disclosure as a result of the proceedings.

C. Contractual Submission to Governmental Board or Commission

Government agencies in some countries frequently are required to include in their contracts provisions for resolution of all disputes by boards or commissions maintained for that purpose by the government. While such provisions are clearly ill-suited for use in international transactions, surprisingly little attention has been given to the special problems presented in a contract dispute between the government of one state and a private contractor from another state. Among those problems are questions of international enforceability of the decisions of a government contracts board or commission, the potentially extraterritorial application of national policies of the contracting government, and the lack of experience of most such boards or commissions with international disputes.

Where one of the parties to a technology transfer agreement is a governmental agency, an arbitration clause in that agreement may be unenforceable on the ground that, in the absence of statutory authorization, the agency lacks authority to agree to arbitration.77 In the specific context of a dispute arising under an agreement between a Swedish company and the U.S. Navy for the licensing to the Navy of unpatented trade secrets, an arbitration clause contained in the agreement has been ruled invalid,78 and the Swedish plaintiff was forced to bring suit in the Court of Claims.79 Recognition and enforcement of an arbitration agreement, as well as an award rendered in any arbitration thereunder, can be refused under the Convention if the arbitration agreement is held to be null and void for lack of authority of a signatory.80

76. Ehrenhaft, supra note 56, at 1222.
77. This is the case, for example, under the laws of Belgium, France, the Federal Republic of Germany, and the United States. In other countries, including Austria, Italy, the Netherlands, and the United Kingdom, there is no such bar to arbitration. See Delaume, supra note 60, § 13.05 at 33.
80. New York Convention, supra note 48, at art. II(3).
A dispute settlement procedure analogous to arbitration, which is frequently used in government contracts, involves referral to a quasi-judicial board or commission. While this procedure is generally authorized by the laws of the country in which it is used and, therefore, produces a decision that is enforceable domestically, international enforcement of such dispute resolution clauses or decisions rendered thereunder is highly doubtful. The Italian courts have refused to enforce a dispute-settlement clause in a U.S. government contract requiring "arbitration" before a panel composed of members of the U.S. armed forces and civilian components, concluding that "agreements conferring exclusive jurisdiction upon one of the parties to a dispute are null and void as a matter of public policy."81 Other courts have refused to enforce such clauses against the United States on sovereign immunity grounds, concluding that the underlying agreement is "governmental" rather than "commercial" in nature.82 The New York Convention permits states to enter a reservation limiting the application of the Convention to disputes arising out of legal relationships that are treated as "commercial" under national law,83 and several states including the United States have done so.

The use of a governmental board or commission seems the least likely of all alternatives to protect the parties from conflicting national policies. Decisions of such an entity will certainly reflect the public policy of the forum state,84 while other states will remain free to apply their own policies in any collateral or enforcement proceedings. Proceedings before a governmental board or commission will generally be conducted strictly in accordance with regulations adopted for that purpose. The parties will have little if any flexibility in adapting the procedures to the specific requirements of the situations.

The expertise of the members of a governmental board or commission will vary. Most government contracts appeals boards, however, have expertise primarily in traditional procurement contracts and may have difficulty dealing with sophisticated questions of licensing agreements and industrial property law.

81. I.R.S.A. Ltd. v. United States, Corte di Cassazione, January 31, 1963, quoted in Delaume, supra note 60, § 13.05 at 164 n.27.
82. Entreprise Perignon v. Etats Unis d'Amerique, Cass. civ. Ire, [1965] Clenet 416. While most technology-transfer agreements would undoubtedly be viewed as commercial rather than governmental in nature, and a claim of sovereign immunity would therefore be denied under the restrictive theory of sovereign immunity, the French court in Perignon concluded that, because the disputes clause invoked there departed so significantly from French practice on government contracts, the entry into the agreement must be regarded as governmental in character. See Delaume, supra note 60, § 13.05 at 44-45. The logic appears less than impeccable. On sovereign immunity and act of state problems in relation to resolution of international disputes, see Perlman & Nelson, supra note 11, at 222-25, & 243-44.
83. New York Convention, art. I(3).
V. Conclusion

As a general proposition, arbitration provides the best framework for the resolution of disputes in international technology transfer agreements, in accordance with the intent of the parties, with minimal interjection of various national public policies, and with the highest degree of confidentiality. Arbitration, however, is no more than a framework. Unless the parties are willing to devote the time and energy required to develop procedures meeting their specific needs, arbitration may be no better than judicial resolution and in some respects worse. If arbitration is agreed upon, the place of arbitration should be selected with a view to ensuring enforceability of the arbitral agreement as written as well as to ultimate enforcement in other countries, bearing in mind applicable conventions.

If the parties are not prepared to develop an appropriate arbitral framework or if they prefer to resolve disputes through judicial channels, they should at the very least designate a judicial forum. The forum selected should be one that will give effect to the agreement in accordance with its intent and, in particular, will apply with law chosen by the parties as the proper law of the contract. It should also be a forum whose judgments are likely to be recognized by courts in which recognition and enforcement may ultimately be sought. Governmental boards or commissions are generally the least desirable forum for the resolution of disputes under international technology transfer agreements and should be avoided.

It has been suggested that lawyers may never succeed in convincing clients that the content of arbitration (and presumably other dispute resolution) clauses is as important as that of the substantive provisions of an agreement. While it is undeniably difficult to persuade business people that the patience required to develop and negotiate workable dispute-resolution provisions will be rewarded, it seems clear in the context of international technology transactions that the lawyer owes the client the duty to be more than a little stubborn in this regard. The current interest of the business and legal communities in alternative means of dispute resolution may well herald an increased awareness of the value of anticipating and dealing with the possibility of disputes at the outset of a commercial relationship. It is hoped that the considerations set forth in this paper will be of help in that effort where international technology transfer is involved.