IIC Studies

Studies in Industrial Property and Copyright Law

Volume 10

Guillermo Cabanellas

The Extraterritorial Effects of Antitrust Law on Transfer of Technology Transactions

ublished by the Max Planck Institute
for Foreign and International Patent,
Copyright, and Competition Law, Munich

VCH

IIC Studies

Studies in Industrial Property and Copyright Law

Guillermo Cabanellas

The Extraterritorial Effects of Antitrust Law on Transfer of Technology Transactions

VCH

Guillermo Cabanellas
Professor, University of Buenos Aires
Adjunct Associate Professor, University of Illinois
Estudio Juridico
Dr. Cabanellas de Torres
Viamonte 1730
Buenos Aires
Argentina

Prof. Dr. Friedrich-Karl Beier
Prof. Dr. Gerhard Schricker
Max Planck Institute for Foreign and International Patent, Copyright and Competition Law
Siebertstr. 3
D-8000 München 80
Federal Republic of Germany

Published jointly by
VCH Verlagsgesellschaft, Weinheim (Federal Republic of Germany)
VCH Publishers, New York, NY (USA)

Composition: Lichtsatz Glaese, D-6944 Hemsbach
Printing and Bookbinding: Druckerei H. Schreck KG, D-6735 Maikammer
Cover design: TWI H. J. Weisbrod, D-6943 Birkenau

British Library Cataloguing-in-Publication Data:

Cabanellas, Guillermo
The extraterritorial effects of antitrust law on transfer of technology transactions. – (IIC studies. Studies in industrial property and copyright law).
1. United States. Industries. Competition. Law. Economic aspects
I. Title II. Series 347.303'72
ISBN 3-527-26919-3

Deutsche Bibliothek Cataloguing-in-Publication Data:

Cabanellas, Guillermo:
The extraterritorial effects of antitrust law on transfer of technology transactions / Guillermo Cabanellas. [Publ. by the Max-Planck-Inst. for Foreign and Internat. Patent, Copyright, and Competition Law, Munich]. – Weinheim ; Basel (Switzerland) ; Cambridge ; New York, NY : VCH, 1988
(IIC studies ; Vol. 10)
ISBN 3-527-26919-3
NE: GT

IIC Studies

Studies in Industrial Property and Copyright Law

Volume 10

VCH

Preface

Our century has witnessed a universal explosion of economic expectations. The spectacle of the unprecedented growth experienced by the industrialized nations has raised strong desires and tensions in the less developed world, as it tries to keep pace with the economic tempo of the richer countries.

There is an almost unanimous consensus that the gap between developed and developing nations can only be closed by bridging the huge technological differences between them. This, in turn, requires an active and unhampered flow of technology towards the developing nations.

Transfer of technology cannot be successful in a hostile economic environment. One of the legal obstacles to a more active international exchange of technology has been the frequently restrictive regulation of international transfer of technology transactions by developing nations. However, when the alternative to these regulations, i.e. antitrust law, is examined, other inconveniences are found for the parties willing to enter into economically sound transfer of technology transactions. From one angle, a lengthy "legal war" is being fought between the U.S. and other countries regarding the limits of the extraterritorial application of antitrust. From another perspective, antitrust laws, in particular those of the U.S. and the EEC, by setting no clear standards regarding their extraterritorial application, have cast a shadow of uncertainty on the legal limits applicable to international transfer of technology transactions. This uncertainty is especially harmful in this field, due to the fact that the economic interests of the parties must be protected by legal means to an extent normally broader than that required by transactions involving tangible assets.

This study examines the general principles applicable to the extraterritorial application of antitrust, and their validity under international law. On the basis of this analysis and that of the status of industrial property under international law, a legal structure for the antitrust treatment of international transfer of technology transactions is set out and compared with the principal precedents existing in this field.

The author thanks the encouragement and help received from Professor *Friedrich-Karl Beier*, Director of the Max Planck Institute; the valuable observations and comments made by Professor *Wolfgang Fikentscher*; the editing and revision of the manuscript by *Margaret Llewelyn*, and the overall editorial care extended to this book by *Joan Kasten*.

Munich, July 1988 Guillermo Cabanellas

Abbreviations

aff'd.	affirmed
Am.	American
Austl.	Australia, Australian
B.C.	Boston College
BGH	Bundesgerichtshof (German Federal Supreme Court for Civil Matters)
BKartA	Bundeskartellamt (German Federal Cartel Office)
Bull.	Bulletin
Bus.	Business
Cal.	California
Can.	Canada, Canadian
CCH	Commerce Clearing House
C.F.R.	Code of Federal Regulations
Ch.	Chapter
Cir.	Circuit Court of Appeals (Federal, U.S.A.)
C.M.L.R.	Common Market Law Reports
Colo.	Colorado
Colum.	Columbia
Comm.	Commission
Comp.	Comparative
Crim.	Criminal
Ct.Cl.	Court of Claims
D.	District Court (Federal, U.S.A.)
D.C.	District of Columbia
Del.	Delaware
Doc.	Document
E.C.R.	European Community Court of Justice Reports
ed.	editor
EEC	European Economic Community
EIPR	European Intellectual Property Review
F.	Federal Reporter
F.2d	Federal Reporter, Second Series
Fr.	France, French
F.Supp.	Federal Supplement
FTC	Federal Trade Commission
Ga.	Georgia
G.A.	General Assembly
GRUR	Gewerblicher Rechtsschutz und Urheberrecht
GRUR Int.	Gewerblicher Rechtsschutz und Urheberrecht, Internationaler Teil
GWB	Gesetz gegen Wettbewerbsbeschränkungen (German Act Against Restraints of Competition)

Harv.	Harvard
IIC	International Review of Industrial Property and Copyright Law
Ill.	Illinois
Int'l.	International
J.	Journal
J.O.	Journal Official des Communautés Européenes
J.W.T.L.	Journal of World Trade Law
L.	Law
Law.	Lawyer
Mass.	Massachusetts
Md.	Maryland
Mich.	Michigan
Minn.	Minnesota
Mod.	Modern
Neth.	Netherlands
N.J.	New Jersey
Nw.	Northwestern
N.Y.	New York
N.Z.	New Zealand
OEDC	Organization for Economic Cooperation and Development
O.J.	Official Journal of the European Communities
Pat.	Patent
P.C.I.J.	Permanent Court of International Justice
Penn.	Pennsylvania
Pitt.	Pittsburgh
Pol.	Policy
Q.	Quarterly
RBP Code	The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices
Reg.	Regulation
Rep.	Report
Res.	Resolution
Rev.	Review
Rev.Stat.	Revised Statutes
Rptr.	Reporter
S.Afr.	South Africa
S.Ct.	Supreme Court Reporter
Soc'y.	Society
St.	State
Stan.	Stanford
Stat.	Statutes at Large
T.I.A.	Treaties and Other International Acts
Turk.	Turkey
U.	University

U.N.	United Nations
UNCTAD	United Nations Conference on Trade and Development
U.S.	United States Supreme Court Reports
U.S.C.	United States Code
U.S.T.	United States Treaties and Other International Agreements
Wash.	Washington
WRP	Wettbewerb in Recht und Praxis
WuW	Wirtschaft und Wettbewerb
W.Va.	West Virginia

Contents

I. Introduction

Transfer of technology transactions with international elements create the problem of determining which national or supranational laws will be applicable to a given transaction. This problem is generally analyzed from a private international law perspective, leading to the determination, by means of conflict of laws principles, of the rules applicable to a given contractual transaction.[1] However, transfer of technology transactions are not only governed by contract law. Economic regulations of different types are also applicable to these transactions. These regulations have not only a significant effect on the contract law applicable to a transaction,[2] but also include an explicit or implicit determination of their own effects. Thus for example the so-called direct transfer of technology regulations, which govern licensing operations in many developing countries,[3] include express provisions determining what transactions are subject to such regulations, *e. g.* those in which the technology purchaser is domiciled in the country which enacted the regulations.[4]

The applicability of antitrust rules to transactions with extraterritorial elements, in general, and to international transfer of technology transactions, in par-

1 The tendency to focus on the private international law problems of international transfer of technology transactions, without giving adequate consideration to the problems created by conflicting or overlapping antitrust or other regulatory laws potentially applicable to such transactions, is seen in the different versions of the draft International Code of Conduct on the Transfer of Technology (hereinafter cited as Draft Code), being discussed within the framework of UNCTAD. Few, and generally insufficient or unsatisfactory rules on the extraterritorial reach of antitrust or other economic regulations applicable to international transfer of technology transactions are included in the different versions of the Draft Code. For an analysis of this Code see *W. Fikentscher, H. P. Kunz-Hallstein, C. Kleiner, F. Pentzlin* and *W. Straub*, The Draft International Code of Conduct on the Transfer of Technology (1980); *S. Holland*, Codes of Conduct for the Transfer of Technology: A Critique (1976); *N. Horn*, Legal Problems of Codes of Conduct for Multinational Enterprises (1980).

2 See *Cabanellas*, "Applicable Law under International Transfer of Technology Regulations," 15 IIC 39 (1984).

3 Extensive descriptions of the structure of these transfer of technology regulations may be found in *J. Alvarez Soberanis*, La Regulación de las Invenciones y Marcas y de la Transferencia Tecnológica (1979); *G. Cabanellas*, Antitrust and Direct Regulation of International Transfer of Technology Transactions (1984); *C. Correa*, Regímenes de la Transferencia de Tecnología en América Latina (1980). A summary of the purpose, contents and effects of these regulations is included in *Correa*, "Transfer of Technology in Latin America: A Decade of Control," 15 J. W. T. L. 388 (1981).

4 See e. g. Argentine Law 22, 426. Other transfer of technology regulations apply whenever one of the parties is a resident of the country which issued the regulations or when the transaction has effects in that country. See Mexican Law of December 29, 1981, on the Transfer of Technology and the Use and Exploitation of Patents and Trademarks, art. 5.

ticular, is generally not defined expressly by competition law statutes. Rather, such applicability must be decided under frequently complex and uncertain principles on the extraterritoriality of punitive and economic regulation laws, on the basis of which the law of international and extraterritorial antitrust has been developed.[5]

The determination of the applicability of antitrust rules to international transfer of technology transactions is made even more complex by the need to coordinate antitrust provisions with the industrial property rules which directly or indirectly govern a transfer of technology transaction. It is a well-known characteristic of antitrust law that its limits on the legitimate exercise of industrial property rights are at best complex and in many cases subject to a degree of judicial discretion not common in matters related to industrial property.[6] When the antitrust-industrial property interface is set in an international framework, its difficulties are compounded by the need to integrate the potentially applicable laws of different countries with the international law rules which may also govern the transaction.

Faced with the daunting task of drawing clear rules from the maze of statutes, principles and precedents which may potentially apply to a given international transfer of technology transaction, there is a tendency, both in practitioners and in the legal literature, to adopt simplistic generalizations about the extraterritorial applicability of antitrust rules. Thus, it is sometimes stated that antitrust rules, being punitive in nature, have no extraterritorial effects,[7] while on other occasions a tendency is found in technology importing countries to exclude, on the basis of their *ordre public*, any possible application of foreign antitrust rules to transfer of technology transactions also governed by the technology importing country's regulations.[8]

5 Extensive analysis of these rules may be found in *J. Atwood & K. Brewster*, Antitrust and American Business Abroad (1981); *K. Authenrieth*, Die grenzüberschreitende Fusionkontrolle in Theorie und Praxis (1982); *B. Barack*, The Application of the Competition Rules (Antitrust Law) of the European Economic Community (1981); *W. L. Fugate*, Foreign Commerce and the Antitrust Laws (1982); *M. Haymann*, Extraterritoriale Wirkungen des EWG-Wettbewerbsrechts (1974); *J. Kevekordes*, Auslandszusammenschlüsse im internationalen und materiellen Kartellrecht (1986); *K. Meessen*, Völkerrechtliche Grundsätze des internationalen Kartellrechts (1975).

6 See *D. H. Ginsberg*, Antitrust, Uncertainty and Technological Innovation (1980); *Baxter*, "Antitrust Law and Technological Innovation," 1985 Issues in Science and Technology 89; *Fikentscher*, "Die Warenzeichenlizenz im Recht der Wettbewerbsbeschränkungen," in Die Warenzeichenlizenz 405, 414 (*F. K. Beier, E. Deutsch & W. Fikentscher*, eds., 1963).

7 See *Correa*, "La Regulación de las Cláusulas Restrictivas en los Contratos de Transferencia de Technología en el Derecho Latinoamericano," 14 Revista del Derecho Comercial y de las Obligaciones 183, 200, 201, 224 (1981).

8 E. g. in the version of the International Code of Conduct on the Transfer of Technology drafted by the Group of 77 (UNCTAD document TD/CODE TOT/9, Appendix G.1) it is stated that

This way of cutting the Gordian knot created by conflicting national regulations applicable to a given transfer of technology transaction is totally unsatisfactory. If, under a given country's legal system, its antitrust laws are applicable to an international transfer of technology transaction, the fact that another country's law intends to exclude the applicability of the former's antitrust law will not normally prevent such applicability within its jurisdictional bounds. As a consequence, the parties to the transaction will be subject to the effects of such antitrust law to the extent that they fall within the aforementioned jurisdictional bounds.

This risk is not unknown to parties familiar with the extraterritorial reach of antitrust. However, it has led to a tendency, found in legal practice, to guard international transfer of technology transactions against the possible effects of the laws of all the countries with which the transaction has significant contacts. This position limits the possible scope of the transaction to an unnecessary extent, by disregarding the significant limitations that all antitrust systems have on their extraterritorial effects. Thus, contractual provisions which after a closer analysis should be considered valid are eliminated so as not to violate antitrust rules which in fact do not reach such provisions.

The rational drafting and negotiation of international transfer of technology contracts requires the determination of the different domestic antitrust rules applicable to a given contract. With this purpose, this study will analyze the general rules applicable to the extraterritorial effects of antitrust, and from that basis it will continue by examining the possible effects of industrial property law on such extraterritorial application. It will thereafter consider the impact of extraterritorial antitrust law on certain transfer of technology transactions and on some of their possible provisions.

This study will focus on the extraterritorial effects of antitrust laws as they have been developed and applied in the United States and the European Economic Community (EEC). The reason for this focus is not only the economic importance of these jurisdictions, particularly as technology exporters, but also the wealth of precedents and literature which has emerged under their antitrust laws, and the active enforcement practiced in these jurisdictions in the competition law area. However, where necessary, other antitrust systems shall also be considered from the comparative perspective followed in this study.

"[t]he law applicable to matters relating to public policy (*ordre public*) and to sovereignty shall be the law of the acquiring country." No allowance is made for the possible effects of the supplying countries' antitrust laws. It may be reasonably argued, however, that the purpose of this provision is not to exclude the applicability of the technology exporting countries' antitrust law, a matter basically not dealt with in the Draft Code, but rather to assure the applicability of the host countries' public policy rules bearing on the contractual elements of transfer of technology transactions.

Due to the nature of the subject to be examined it will also be necessary to explore the implications under international law of extraterritorial antitrust, in particular as it applies to transfer of technology transactions. However, it will be necessary in this respect to make certain preliminary considerations about the limits of international law in this field.

Every punitive rule has potential extraterritorial effects and therefore requires additional rules or principles directed to determining the limits of such extraterritorial effects. These rules or principles may be part of the law of the country which enacted the punitive rule or else may be derived from international law.

Within a given legal system, certain general rules will normally exist devised to supply a minimum solution to any possible legal conflict. Thus, within countries in the civil law tradition, a private law conflict has to be solved by the judge hearing the case, regardless of the fact that there may be no rule directly applicable to that case or that the *prima facie* applicable rules may be contradictory. The judge will have to base his decision on the analogical application of other rules or on the general principles of the legal system involved. If a criminal law case is being tried, the lack of a rule attaching a sanction to the conduct under consideration will result in a decision favorable to the person to whom that conduct is attributed.

However, international law is not a self-contained, exhaustive normative system of the type described above. Given a set of facts, it may not supply a rule applicable to the factual situation, or it may supply rules that do not imply a legal solution to the conflict under consideration or that entail that such a conflict will have to be resolved by means other than legal mechanism, *i.e.* diplomacy or the use of force. This characteristic of international law is strengthened by the fact that the enforcement of such law is normally in charge of a decentralized system, represented by the same parties which find themselves in a conflict situation under international law, *i.e.* the national states.

The aforementioned imperfections of international law apply in full to the problem of solving the conflicts between overlapping national jurisdictions in punitive matters. Thus, it has been stated that

> each system of internal repression fixes by itself the limits of its application domain .... That common attitude leads inevitably to conflicts between criminal laws, but there is no rule, whether international or domestic, to solve such conflicts. The national repressive systems have taken the position of ignoring the concurrence of criminal laws with regard to the same infraction.[9]

9 *C. Lombois*, Droit Pénal International 277 (1979).

This potential for international conflict in the field of punitive jurisdiction has generally not materialized in significant practical difficulties. Given the fact that the definition of criminal conduct is to a large extent parallel in the different countries with relatively developed legal systems, and that adjudicative and enforcement jurisdictions more liable to create conflicts than is the case with prescriptive jurisdiction have not been extended without due regard for other nations' jurisdictions, the conflict between punitive jurisdictions in the last decades has generally been limited and low-key.

Antitrust law has proved to be an exception to this atmosphere of relative tranquility in the field of conflicts between punitive jurisdictions. After several decades during which the extraterritorial reach of antitrust laws remained relatively unchallenged, extraterritoriality became increasingly contested by the countries affected by it. In the last years, several of these countries have enacted statutes directed to preventing or thwarting the extraterritorial effects of foreign antitrust laws.

The importance of the international conflicts as to the acceptable extraterritorial application of antitrust laws has been exacerbated by the increasing economic interdependence which has characterized world economic development during the last decades. This interdependence implies that antitrust policies only become effective when applied within an international framework, and that the economic policies individually pursued by specific countries are increasingly subject to the effects of foreign antitrust laws, even if the rules on the extraterritorial effects of these laws remain formally unchanged. The fact that a high percentage of technology transactions have a transnational character makes the potential extraterritorial enforcement of antitrust rules a frequent issue in contemporary licensing operations.

II. The General Extraterritorial Effects of Antitrust Law

Antritrust laws do not include specific rules on their extraterritorial effects on transfer of technology transactions. Such extraterritorial effects must be inferred from the general extraterritorial effects of antitrust law, *i. e.* from the rules that determine the applicability of competition law with regard to all types of transactions with multinational elements. It is therefore necessary to determine what these rules are, with the *caveat* that they are normally not spelled out in statutory formulations, but rather result from the application of general principles on extraterritorial jurisdiction, as they have been applied and developed in the antitrust area.

1. The Meaning of the Extraterritorial Reach of Antitrust Law

Statements about the "reach," "jurisdiction" or "extraterritoriality" of competition law are not univocal. Punitive jurisdiction has three principal dimensions, the failure to distinguish among which has caused unnecessary confusion in this area. These dimensions are the prescriptive jurisdiction, *i. e.* the extent to which the law of a given country applies to certain conducts or transactions; the adjudicative or adjudicatory jurisdiction, *i. e.* the extent to which the courts or agencies of a given country will entertain cases related to certain conducts or transactions; and the enforcement jurisdiction, *i. e.* the extent to which the agents of a given state may perform acts in a certain territory to enforce the prescriptive or adjudicative jurisdiction of that state.

Since the enforcement jurisdiction is, in principle, strictly territorial, the scope for conflict between different national jurisdictions in the field of enforcement is highly limited, even in antitrust matters. This limit on extraterritorial enforcement jurisdiction is derived from the fact that such jurisdiction implies the exercise of state force or compulsion which, under basic international law principles, may not be applied outside the territory of the state involved in such exercise. [10] Extraterritorial enforcement must take place through the authorities of the state in which such enforcement takes place, [11] and in this respect antitrust law does not differ from other punitive rules. Therefore, where reference is made in this study to the extraterritorial reach of antitrust law, this refers to prescriptive and adjudicative jurisdiction, unless otherwise stated.

10 See e. g. *C. Rousseau*, Droit International Public 317 (1953).

11 E. g. through extradition. See *Lombois*, supra note 9 at 536 et seq.