LEGAL STRUCTURE OF TECHNOLOGY TRANSFER AGREEMENTS

I Introduction

AS IS well known, a large number of foreign collaboration technology transfer agreements are being entered into by Indian entrepreneurs these days. The Department of Scientific and Industrial Research (DSIR) of the Ministry of Science and Technology, Government of India, which maintains a register on foreign collaborations, is having studies conducted by several national institutions like the Indian Institute of Foreign Trade, Indian Council of Arbitration and the Faculty of Law, University of Delhi. On behalf of the Faculty, this writer undertook the responsibility of conducting a study on the implications of applicable law in foreign collaboration technology transfer agreements in case the applicable law is the Indian, English, American or German law. During the study which is still going on, the writer came across several very interesting features of the transfer of technology agreements. The interim findings and recommendations are given below in tabular form.

II Analytical survey of foreign collaboration agreements

The study showed a small number of agreements involving foreign law as applicable law. Out of a large number of technology transfer agreements, the effort was to select more and more of such agreements which had foreign law as the applicable law.

III Applicable law in foreign collaboration agreements

For the purpose of the present study, a total number of 74 Indian foreign collaboration agreements have been surveyed. Their description is as follows:

(1) Agreements involving only one country's law as applicable law

(*i*) Number of agreements involving Indian law as applicable law	44
(*ii*) Number of agreements involving American law as applicable law	3
(*iii*) Number of agreements involving English law as applicable law	7
(*iv*) Number of agreements involving Swiss law as applicable law	4
(*v*) Number of agreements involving Japanese law as applicable law	2

(*vi*) Number of agreements involving Italian law as applicable law	2
(*vii*) Number of agreements involving Dutch law as applicable law	1
(*viii*) Number of agreements involving Norwegian law as applicable law	1
(*ix*) Number of agreements involving Canadian law as applicable law	1
(*x*) Number of agreements involving German law as applicable law	2
Total:	67

(2) Agreements involving two countries' law as applicable law

(*i*) Number of agreements involving Indo-German law	2
(*ii*) Number of agreements involving Indo-US law	2
(*iii*) Number of agreements involving Indo-Swiss law	1
(*iv*) Number of agreements involving Indo-Dutch law	1
(*v*) Number of agreements involving Indo-Japanese law	1
Total :	7

IV Arbitration clause and seat of arbitration in foreign collaboration agreements

(1) Agreements involving Indian law (total 44)

(a) Agreements involving Indian law and ICC (International Chamber of Commerce, Paris) Rules as applicable	25

The details are given below:

(*i*) Agreements involving Indian law, ICC Rules and seat of arbitration in India	3
(*ii*) Agreements involving Indian law, ICC Rules and seat of arbitration in foreign country	9
(*iii*) Agreements involving Indian law, ICC Rules and seat of arbitration—not decided	7
(*iv*) Agreements involving Indian law, ICC Rules and seat of arbitration in defendant country	4
(*v*) Agreements involving Indian law, ICC Rules and seat of arbitration to be decided by the parties mutually	2

(*b*) Agreements involving Indian law, Indian arbitration Act 1940 and seat of arbitration in India 9

(*c*) Agreements involving Indian law and Rules of the Indian Council of Arbitration 4

The details are as given below :

(*i*) Out of these four agreements, agreements involving seat of arbitration in India 3

(*ii*) In one agreement, the arbitration law is stated to be of defendant party 1

(*d*) Agreements where only applicable law is mentioned 4

(*e*) Agreements where the law applicable is Indian law, but arbitration is stated to be held according to Trade Agreement with Foreign Country 2

(2) Agreements involving English law (total 7)

(*a*) Agreements involving English law and ICC Rules 3

(*i*) Agreements involving English law, ICC Rules and seat of arbitration in UK 1

(*ii*) Agreements involving English law, ICC Rules but seat of arbitration is not mentioned 2

(*b*) Agreements involving English law and seat of arbitration in UK 1

(*c*) Agreements involving English law but seat of arbitration is not mentioned 3

(3) Agreements involving American law (total 3)

(*a*) Agreements involving American law, ICC Rules and seat of arbitration in USA 2

(*b*) Agreement involving American law, and Rules of conciliation and arbitration of UNCITRAL 1

(4) Agreements involving Swiss law (total 4)

Agreements involving Swiss law, ICC Rules and seat of arbitration in Switzerland 4

(5) Agreements involving Japanese law (total 2)

Arbitration is stated to be conducted in accordance with the Indo-Japan Trade Agreement 1955 2

(6) Agreements involving Italian law (total 2)

(*a*) Agreement involves Italian law, ICC Rules and seat of arbitration in London 1

(*b*) Agreement involves Italian law and arbitration is to be conducted by Arbitration Court of International Chamber of Commerce 1

(7) Agreements involving Dutch law (total 1)

Agreement involves Dutch law, ICC Rules and seat of arbitration in Paris 1

(8) Agreements involving Norwegian law (total 1)

Agreement involves Norwegian law, ICC Rules and seat of arbitration in Hague 1

(9) Agreements involving Canadian law (total 1)

Agreement involves Canadian law, ICC Rules and seat of arbitration in New York 1

(10) Agreements involving German law (total 2)

Agreements involving German law, and arbitration to be conducted by Arbitration Court of International Chamber of Commerce at Zurich 2

(11) Agreements involving Indo-German law (total 2)

(*a*) Agreement involving Indo-German law and seat of arbitration in New Delhi 1

(*b*) Agreement involving Indo-German law, ICC Rules and seat of arbitration in Brussels 1

(12) Agreements involving Indo-US law (total 2)

(*a*) Agreement involving Indo-US law, ICC Rules and seat of arbitration in Paris 1

(*b*) Agreement involving Indo-US law, ICC Rules but seat of arbitration is not specified 1

(13) Agreements involving Indo-Swiss law (total 1)

Agreement involving Indo-Swiss law, ICC Rules and seat of arbitration in Cleveland, Ohio 1

(14) Agreements involving Indo-Dutch law (total 1)

Agreement involving Indo-Dutch law, ICC Rules and seat of arbitration in Bombay/London 1

(15) Agreements involving Indo-Japanese law (total 1)

Agreement involving Indo-Japanese law, ICC Rules and seat of arbitration is not specified 1

V Analytical survey of questionnaires

Total number of 150 questionnaires were sent to different Indian companies having foreign collaboration agreements. Only 6 companies responded and sent details of 22 such agreements. Out of these, 4 companies have had more than one foreign collaboration agreement with different companies of different countries. Their description is as follows :

(1) Applicable law, arbitration rules and seat of arbitration

(*a*) Agreements involving Indian law	22
(*b*) Agreements having arbitration clause	22
Their details are as given below :	
(*i*) Agreements with arbitration seat in India	8
(*ii*) Agreements with arbitration seat in India/foreign country	2
(*iii*) Agreements without specifying seat of arbitration	9
(*iv*) Agreements with arbitration seat in foreign countries	3
(*c*) Agreements with ICC Rules applicable	
Their details are as given below :	12
(*i*) Agreement with ICC Rules and seat of arbitration in India	1
(*ii*) Agreement with ICC Rules and seat of arbitration in India/foreign country	1
(*iii*) Agreements with ICC Rules and seat of arbitration in foreign countries	3
(*iv*) Agreements with ICC Rules but no specified seat of arbitration	7
(*d*) Agreements involving rules of bilateral trade arbitration agreements	7
Their details are as given below :	
(*i*) Agreements involving rules of Indo-German Chamber of Commerce	6
(*ii*) Agreement involving rules of Indo-Japan trade arbitration agreement	1

VI Analytical survey of restrictive business practices in Indian/foreign collaboration agreements (RBP)

Number of agreements surveyed	74
Number of agreements with RBP clause	41
Number of restrictive clauses	91
Number of types of RBPs	10

VII Types of restrictive clauses and number of agreements

(*i*) Restrictions after expiration of agreement	10
(*ii*) Export and territorial restrictions	14
(*iii*) Use of technical personnel	20
(*iv*) Non-competition clause	04
(*v*) No contest to validity	04
(*vi*) Tying arrangements	03
(*vii*) Grant-back provisions	18
(*viii*) Quality control	15
(*ix*) Representation and distribution system	02
(*x*) Restrictions on publicity	01

VIII Analytical survey of industrial property licensing in the Indian foreign collaboration agreements

(*i*) Number of agreements surveyed	74
(*ii*) Number of agreements with IP licensing	41

These are as follows :

(*a*) Agreements involving patent	16
(*b*) Agreements involving patent and trademark	11
(*c*) Agreements involving trademark	08
(*d*) Agreement involving tradenames	01
(*e*) Agreements involving trade marks and tradenames	02
(*f*) Agreement involving patent and design	01
(*g*) Agreement involving design	01
(*h*) Agreement involving patent, trademark and design	01

IX Findings and recommendations

It is very important to note that the position about the applicable law should be clear so as not to have things open to litigation. Surprisingly, in quite a few foreign collaboration agreements, this is not so.

(1) Problems associated with applicable law

It is not clear as to what is the meaning of making Indian law as well as the other country's law as applicable law to an Indian foreign collaboration agreement. Such provisions create confusion and will put the contracting parties, particularly the Indian party, in difficulty in case of a dispute. Therefore, while approving the transfer of technology agreements, the parties should be directed to decide on only one country's law as the applicable law. It should be emphasised in the government guidelines

also that only one country's law should be selected by the parties to be the applicable law of the foreign collaboration agreement.

Another thing which we found to be intriguing was the fact that even in agreements in which the English party was not the foreign party involved, English law was agreed to by the parties to be the applicable law. To illustrate this phenomenon, we have seen that though in a certain agreement, the foreign party was American, yet English law was selected by the parties to be the applicable law. This contract had absolutely nothing to do with UK. Thus under the principles of private international law, English law could not be the applicable law of this agreement. But the agreement of the parties professes to make it so. In fact it appears to be a case of applicable law dictated by the foreign party and accepted by the Indian party. This kind of practice has been adversely commented upon by Wilner[1] also. In such cases, the Indian law should be deemed to be the applicable law under the government guidelines.

(2) Place of arbitration—a major factor

We find that even in cases in which Indian law is the applicable law, the place of arbitration is generally not in India but in some foreign country. Normally, when parties have chosen the proper law of contract to be the national law of a country, such a choice should include not only, (*i*) the law governing substantive rights of the parties under the contract but also, (*ii*) law governing the obligations of the parties under the arbitration agreement; and (*iii*) the law governing the conduct of the arbitration.

However what has been actually happening in practice is that the place of arbitration also influences the law governing, (*i*) arbitration agreement, and (*ii*) conduct of the arbitration.

Strangely enough, a distinction has been developed by advanced countries between substantive law applicable to the contract, and the law applicable to conduct of arbitration called *lex arbitri.*

Thus an arbitration forum situated in a foreign country decides the matter by applying the arbitration law of that country and also the rules of arbitration of the forum instead of the Indian law of arbitration and the rules of the Indian National Forum, namely, the Indian Council of Arbitration.

Apart from the fact that the foreign forum applies the other country's law of arbitration, what is a major problem in this regard is that the Indian parties, by and large, find it to be very difficult to effectively contest the matter before the arbitration tribunal in the foreign country because of huge expenses involved and that too in foreign currency. This statement

---

1. See, Gabriel M. Wilner, "Transfer of Technology: The UNCTAD Code Conduct", in *Legal Problems of Codes of Conduct for Multinational Enterprises* 177 at 183 (1980).

is borne out by the fact that recently when an arbitration was held between the *General Electric Company of U.S.A.* and the *Renusagar Power Company of India* under the ICC Rules by three arbitrators at different places in Europe, even the comparatively wealthy Indian company judged from the Indian standpoint. *Renusagar Power Company of India*, complained that the costs of such foreign arbitration are prohibitive to them.

Even the Supreme Court of India took judicial notice of this fact in *V. O. Tractorexport, Moscow* v. *Tarapore and Co., Madras.*[2]

Thus the Indian guidelines should clearly state not only that the applicable law should be the Indian law but also that the seat of arbitration will be in India. It may be the Indian Council of Arbitration or any other forum.

This could be justified on the basis that the seat of arbitration should be in the country where the imported technology is being put to use for the sake of production. That is the most appropriate forum.

In this connection, it will be instructive to cite the Malayasian example. The guidelines on technology transfer there provide as follows :

> [G]overning laws for technology transfer should be Malayasian laws, arbitration proceedings must be conducted in Malayasia according to Malayasian Arbitration Act, 1952 (revised 1972) or UNCITRAL Arbitration Rules conducted in the Regional Centre for Arbitration at Kuala Lumpur.

This writer advocates for a similar provision in India also. While doing, so he is quite conscious of the desirability of liberalisation in business and industry that has been ushered in by the present Central Government. *But liberalisation does not mean that some proper rules of the game of international business should not be emphasised upon.* As for example, even Malaysia is a country which has liberalised its business and industry to a great extent but they have still laid down the aforesaid rule.

*P.S. Sangal**

2. A.I.R. 1971 S.C. 1.

*B.S.c., LL.M., Ph. D., Professor of Law, University of Delhi.