

KNOW-HOW AND ITS LEGAL PROTECTION

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We are living in an age in which knowledge about the material world multiplies day by day. Every day brings new information about objects and phenomena of the world. This quick acquisition of knowledge enriches our mind and expands the frontiers of science. But it also creates moral problems. Knowledge is not merely power. It is also wealth. And, as knowledge becomes wealth, he who acquires it, seeks to monopolise it. If he transfers it to another person, he too does so only in return for money. Knowledge thus tends to get transformed into an economic asset. It becomes a kind of intellectual property.

The concept of know-how

Intellectual property is a wide concept, expressing so many species of intangible wealth. Know-how is one such species. The United International Bureau on the Protection of Intellectual Property, in article 53/1 of the Model Law for Developing Countries on Inventions, describes know-how as "manufacturing processes or knowledge concerning the use and application of industrial techniques". In essence, knowledge is an economic asset, for the exploitation of which its possessor must have some scientific or technical ability.¹ These elements are brought out by Mr. Paul Malhery, Rapporteur General of the International Association for the Protection of Industrial Property who, in the *Annales de la propriété industrielle*, gives the following definition: "Know-how consists of knowledge and experience acquired for the practical application of a technique".

Types of know-how

Above position generally holds good for all kinds of technical information needed for designing, manufacturing, using, maintaining or (in some cases) marketing the product or elements thereof. Such information would include -

- (a) Non-documentary materials (samples, unregistered designs, machines, apparatus, spare parts, tools, accessories).
- (b) Technical documents (formulae, calculations, plans, drawings, unpatented inventions).
- (c) Patented inventions and registered designs.

1. U.N. Publication Sales No. E.70.II.E.15, Guide for use in drawing up contracts etc. 1969, page 2.

Know-how as property

The question whether know-how is "property" in the legal sense raises basic juristic issues. What is the essence of property? The notion of property is a flexible one in the legal system and the concept is employed for a variety of purposes. Clearly, those who deal in technical know-how, often treat it as such. If technical know-how is property then it follows that he who first created it, becomes its proprietor. Creation and acquisition are each modes of acquiring many kinds of property, including intangible property.² At least to the extent of giving rights against third parties the law protects know-how. In the cases where the original creator of know-how "assigns" it to a person (the recipient) and the recipient discloses it or uses it unlawfully, the assignor has a cause of action against the assignee. And it seems that this remedy available to the assignor is not necessarily confined to a contract as such, even though in many reported decisions, there was a contract. No doubt, breach of confidence may also be breach of contract on the facts of a particular case. But even apart from contract in the strict sense, courts have shown their readiness to protect misuse of confidential information. As has been commented by Cornish,³ "What can be remarked is the tendency in the modern law to abandon the rather limiting notion of contractual obligation in favour of some independent notion of an equity of good faith or a breach of confidence. Tort, at its most fundamental level, serves to underscore the virtue of upholding confidence so far as legal techniques can assist".

No doubt, the extent to which the law will protect confidential information is linked with the ever-recurring problem of conflict of values. A law protecting confidences creates tension with other values, particularly the interest of the public in access to certain types of information. But this is not a problem peculiar to this region of the law. Balancing of conflicting considerations is a process familiar to judges in many other fields of law.

Know-how license

Of course, the position is simple if the obligation to keep certain information confidential is an express term of a contract. This is usually the case where there is an agreement for the transfer of know-how. The purpose of a "know-how licence" - as it is commonly called - is to permit the licensee (transferee) to make use of the information provided by the licensor for the purposes of his own business. Normally, the agreement will limit the degree to which the "know-how" can be imparted to others, and use by the licensee after termination of the licence may also be circumscribed.⁴ If a duty of non-disclosure is imposed on the recipient of any

2. Cornish, *Intellectual Property* (1981), page 290 and footnote 49.

3. Cornish, *Intellectual Property* (1981), page 292.

4. *National Broach v. Churchill*, (1965) R.P.C. 61, *Torrington v. Smith*, (1966) R.P.C. 285.

information and a third person by deception induces disclosure, the third person may even become liable for cheating. An English case⁵ discusses this aspect, although in that case, the prosecution failed because of a defective charge. Criminal sanctions have been developed against the misuse of trade secrets in the United States.⁶

Stipulations as to confidentiality

Agreements for the transfer of know-how usually require that the know-how supplied shall be kept confidential. This is so, even if the agreement is not in the form of a licence for patent. Certain industrial processes may be known only to one enterprise or to a few enterprises. These enterprises might not wish, or may have been unable to protect the industrial process through registration in accordance with the law relating to industrial property. They may, at the same time, wish to keep this knowledge confidential. In such cases, the transfer of technology may occur through the supply of the knowledge (know-how) to the purchaser. Usually, such supply is subject to conditions as to the maintenance of confidentiality by the purchaser.⁷

Stages of confidentiality

The confidentiality may be required at two stages. In the first place, the transferor may supply some know-how to the purchaser during negotiations in order to enable the potential purchaser to decide whether he would find the technology useful and profitable. At this stage - which is a stage of preliminary negotiations - the stipulation of secrecy would bind the concerned employee of the potential transferee (i.e., the employee who makes the initial evaluation). Secondly, if the potential transferee decides to purchase the technology, the transferee will require the additional know-how supplied thereafter to be kept confidential. If a transfer of technology does take place, the agreement may conceivably impose on the transferor an obligation to impart to the transferee knowledge about future improvements in the technology made by the licensor plus an obligation that the transferor shall not disclose them to any person other than the transferee of the original technology.

In drafting the non-disclosure clauses, the draftsman should (apart from bearing in mind the two stages referred to above) take care to provide, not only for the principal obligation of the transferee to maintain secrecy, but should also provide for matters of detail, such as the duration of obligations of the parties, transferor's obligation to preserve secrecy, exchange of know-how, provisions ensuring that the transferee's staff shall also maintain secrecy, legal effect of accidental loss of secrecy, liability for disclosure of secret information and effect of expiry of the contract.

5. **D.P.P. v. Withers**, (1975) A.C. 842 : (1974) 3 All E.R. 984 (H.L.).

6. Glancy in (1979) 1 **European Intellectual Property Review** 179.

7. **UNCITRAL Legal Guide on Drawing Up International Construction Contracts (1988)**, page 66, para 5, pages 67, 68, para 11, pages 71, 72, paragraphs 23, 24.

Actionability

It is a principle of uncodified law that it is actionable to communicate information in breach of an agreement not to communicate such information. Such an obligation may arise from agreement or may arise apart from agreement.⁸ For example, information given by one manufacturer to another in confidence may be protected.⁹ Production drawings entrusted in confidence are entitled to protection.¹⁰ Where an unpublished invention is disclosed in abortive negotiations, unauthorised use or disclosure of the same may be restrained.¹¹ As regards agreement, it may be (a) express or (b) implied from master-servant relationship or (c) implied from some other confidential relationship between the parties. It is common practice to insert secrecy clauses in agreements for the transfer of know-how. But even without an express clause, it may be implied. Thus, a former employee may be restrained from using information acquired in course of employment.¹²

In a case decided towards the end of the last century, publication of plot of forthcoming play was restrained on the ground that the information could have been obtained only from some employee of the plaintiff.¹³

In a series of English cases, persons have been restrained from making public information obtained from subscribers to news agencies, where the agreement between the subscribers and the news agencies provided that they were not to publish the information issued.¹⁴

Know-how and Patents

Most businessmen do not have a clear concept of the distinction between patents and know-how. Patents enjoy statutory protection. Unpatented know-how is not discovered to, or registered with, any official agency. Until it is got patented, it can be treated only as "know-how". Know-how may not be patented, either because the inventive element is insufficient in law, or because the know-how is subsequent to the patent and the complementary know-how has not or cannot be patented or because the know-how is a substitute for a patent, because secrecy is preferred to security.¹⁵

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8. **Sallman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.**, (1948) 65 R.P.C. 203, 211 (C.A.) (per Lord Greene).
 9. **Peter Pan Manufacturing Corporation v. Cersets Silhouettes Ltd.**, (1963) 3 All E.R. 402.
 10. **Nichrotharm Electrical Co. Ltd. v. Percy**, (1957) R.P.C. 207 (C.A.)
 11. **Seager v. Copydex Ltd.**, (1987) 2 All E.R. 415 (C.A.).
 12. **Lamb v. Evans**, (1983) 1 Ch. 218 (C.A.).
 13. **Gilbert v. Star Newspaper Co.**, (1894) 11 T.L.R. 4.
 14. **Exchange Telegraph Co. Ltd. v. Gregory & Co.**, (1896) 1 Q.B. 147 (C.A.); **Exchange Telegraph Co. Ltd. v. Central News Ltd.**, (1897) 2 Ch. 48.
 15. U.N. Guide for Know-how Transfer in Engineering Industry (1970), page 3, paragraphs 5 and 6.

Of course, the know-how may relate to the industrial exploitation of a prior patent belonging to the owner of the know-how. In such a case, it is advisable that the licence for the patent and the transfer of the know-how should be dealt with in separate clauses. If the know-how has been patented in another country, the transferee may stipulate that the patent shall not prevent him from exploiting his know-how in the country of the transferee, in case the transferee gets it patented in the country of the transferee also.

Unpatented know-how

So far as unpatented know-how is concerned, the agreement for the transfer of know-how usually contains provisions regulating the disposition of rights in patents subsequently obtained for the existing know-how (transferee under the agreement) and for later improvements made by either party. For the existing know-how, there will normally be a provision requiring the transferer to inform the transferee of the application for patent and entitling the transferee to a licence under the patent, within the scope of the contract without further payment to the grantor. As regards subsequent improvements made by either party, the contract usually specifies which of the parties is to file applications for patents, the territories in which patent applications will be filed, at whose expense the applications will be filed, nature of the rights granted to the parties *inter se* or to third parties, further payments etc. In all these cases, it is desirable to make it clear whether the rights so granted will survive the main contract for the transfer of know-how.

Kinds of agreements : licensing.

It may be noted, that different contractual agreements can be adopted for the supply of technology and the performance of other obligations under such agreements. The transfer of technology may occur through the grant of licences in respect of industrial property, or through the supply of confidential know-how or through the formation of a joint venture between the parties. The first type of arrangement, namely, licensing, is linked with the substantive rules of the legal system concerned. A common form of industrial property consists of patents. Under the legal system of many countries, a person who invents a process or product can apply to a governmental institution for the grant of a patent protecting the invention in the country. Once a patent is granted for a particular period, the invention which is the subject matter of the patent cannot be exploited by a person other than the patent holder without the consent of the latter. The licence is the essential legal expression of that consent. Besides, patents, other forms of industrial and commercial property are also recognised by most legal systems, such as trade marks, designs and utility models.

Transfer of know-how

Apart from licencing, there is the second type of contractual arrangement, consisting in the transfer of know-how. Persons in the world of business often make a confusion between the licence and the transfer of know-how. But juristically, the

two are different from each other. When the holder of a patent or trade mark gives a licence, he is parting with some right which has received statutory recognition under a specific statutory apparatus. On the other hand, when he seeks to transfer know-how which is not patented, the information or skill which is the subject-matter of know-how is usually something which may not necessarily have received statutory recognition, but which, is still his intellectual property. Certain industrial processes may be known only to one enterprise or to a few enterprises. These enterprises 'might not wish, or may have been unable, to protect the industrial processes through registration in accordance with the law relating to industrial property. They may, instead, keep this knowledge confidential. In such cases, the transfer of technology occurs, not through licencing, but through an agreement for the supply of this knowledge, generally called "know-how", to the purchaser. Though some countries use the term "licensing" to cover both the types of contractual agreements, licensing in the strict sense is to be distinguished from transfer of know-how. This distinction becomes of the greatest practical importance when one comes to the obligation of confidentiality. The extent to which a contractual obligation of confidence may be imposed on the purchaser of know-how, is of prime importance. Subject to mandatory legal rules in the country of the purchaser, the contractual provision as to confidentiality should address itself to a variety of issues, such as, clear identification of the know-how to be kept confidential, duration of the confidentiality, extent of permissible disclosure in specified circumstances or to specified persons, cessation of the obligation of confidence when the information becomes available to the public and so on. Know-how normally consists of a number of elements, of which one element or a combination of elements is of a secret nature. This secrecy adds to the economic value of the know-how and gives a special juridical character to transfer. The secret may not be permanent and may not necessarily be the prerogative of a single possessor. Nevertheless, so long as it is not given out to the public, each of its possessors enjoys an advantage over his competitors. This is an advantage which the possessor of know-how is all the more concerned to exploit, because it is temporary. The grantee of the know-how, in his turn, generally wishes to use in the order to equal or surpass his own competitors in the technical field. Incidentally, it is because of this aspect of know-how that one consideration becomes important, namely, the transfer of know-how is *intuitu personae*. Mutual confidence between the parties is a fundamental element in any contract for know-how and, by reason of such mutual confidence, the identity of the parties is also of fundamental importance. For this reason, it is sometimes provided that the contract may be terminated if the parties change their identity or effective control, by amalgamation, merger or the like.

Disputes resolution : arbitration

Resolution of disputes under an agreement for the transfer of technology through any model is also of practical importance. Apart from securing a decision through the judiciary, arbitration is gaining popularity and in a transnational agreement, it might even become a necessity. For this reason, the draftsman of such an agreement has to

pay particular attention to the arbitration clause. Some of the important practical points that he must consider are the following :-

- (a) Who is going to appoint the arbitrators and what will be their number ?
- (b) What will be the venue of arbitration ?
- (c) Who determines the remuneration of the arbitrators ?
- (d) What is going to be the procedure of the arbitrator ?

Applicable law

Whether the settlement machinery is through the judge or through the arbitrator, one question of importance always arises about the law applicable to substantive issues. It is desirable that the contract should make a provision for the law applicable for determining disputes that may arise as to its validity and interpretation. This may be a specialised branch of the law, but some knowledge of it is inevitable for the draftsman of a transnational agreement.