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ARBITRABILITY OF FORCED TECHNOLOGY TRANSFER: AN UNSOLVED RIDDLE

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Introduction

Forced Technology Transfer ["**FTT**"] has become an increasingly controversial issue in recent years, especially because of the ethical concerns of such transfer of technology. This paper examines the phenomenon of FTT in light of arbitration and the scope of such disputes within the ambit of intellectual property ["**IP**"] disputes. Presently, there is no universally accepted definition of FTT, which proves that there is existing confusion and potential for misunderstanding the notion. However, there have been international efforts to produce a working definition for FTT. For instance, various Multilateral,[1] plurilateral,[2] and country-specific[3] WTO provisions define FTT as a form of state measure involving intellectual property meant to promote foreign-domestic technology transfer.[4] Such technology transfers can lead to appropriability in foreign innovations.[5]

A lack of consensus on the meaning of FTT introduces two primary problems in light of arbitration. Firstly, the arbitrability of FTT as an intellectual property dispute. Secondly, a definitional exercise to understand FTT as a sub-sect of Foreign Direct Investment ["**FDI**"]. In this paper, the scope of arbitration over FTT disputes has been analysed with reference to the

[1] Agreement on Trade-Related Aspects of Intellectual Property Rights 1995; Agreement on Trade-Related Investment Measures 1995.

[2] Agreement on Government Procurement 2012.

[3] The Working Group on Transfer of Technology, World Trade Organisation <https://www.wto.org/english/tratop_e/devel_e/dev_wkgp_trade_transfer_technology_e.htm> accessed 29 August 2023; World Trade Organisation, 'China- Certain Measures on the Transfer of Technology' <https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds549_e.htm> accessed 29 August 2023.

[4] World Intellectual Property Organisation, 'Intellectual Property Rights and the International Transfer of Technology: Setting out an Agenda for Empirical Research In Developing Countries' <https://www.wipo.int/edocs/pubdocs/en/wipo_pub_1012-chapter1.pdf> accessed 29 August 2023.

[5] World Intellectual Property Organisation, 'Innovation and Appropriability, Empirical Evidence and Research Agenda' <https://www.wipo.int/edocs/pubdocs/en/wipo_pub_1012-intro1.pdf> accessed 29 August 2023.

United States of America ["**USA**"]-China Trade War and how this ambiguity and confusion has catalysed the trade war. In this process, the paper attempts to suggest the need for developing a uniform regulatory framework around technology transfer, especially for developing countries that are behind at the technical frontier and are trying desperately to 'catch up'.[6] Acquisition of technology can not only accelerate economic growth for these countries but also enable them to attract investments. These issues have been effectively addressed in the literature with the principal aim of ascertaining equity amongst international players as the world economy gradually turns green and the problems for developing countries become increasingly invisible in such conversations.

Forced Technology Transfer: An Intellectual Property Conundrum

In the domestic and international community, the transfer of technology has become a subject of paramount importance, especially as a tool to advance globalisation. The Intergovernmental Panel on Climate Change ["**IPCC**"] describes technology transfer as a

> *"Broad set of processes covering the flows of know-how, experience, and equipment for mitigating and adapting to climate change among different stakeholders."*[7]

Transfer of technology primarily includes research contracts, collaborative projects, licensing, joint ventures ["**JV**"], alliances, and buyer-supplier relationships.[8] These collaborations more than often involve Intellectual Property Rights ["**IPR**"]-related issues and disputes. Multinational corporations ["**MNC**"] exercise their IPR by way of patent pooling, technology transfer, and research and development ["**R&D**"] agreements.

Technological transfers and exchanges foster development in R&D. However, disputes arise when these MNCs try to achieve a competitive advantage in the market by attempting to adopt three strategies – cost leadership, differentiation, and focus.[9] Transfer of technology highly depends on the type of IP that is being transferred along with the terms and conditions attached to such a

[6] World Intellectual Property Organisation, 'Intellectual Property Rights and the International Transfer of Technology: Setting out an Agenda For Empirical Research In Developing Countries' <https://www.wipo.int/edocs/pubdocs/en/wipo_pub_1012-chapter1.pdf> accessed 29 August 2023.

[7] Intergovernmental Panel on Climate Change, 'Methodological and Technological Issues in Technology Transfer' <https://www.ipcc.ch/report/methodological-and-technological-issues-in-technology-transfer/> accessed 29 August 2023.

[8] World Intellectual Property Organisation, 'WIPO Alternative Dispute Resolution (ADR) in Research and Development/Technology Transfer' <https://www.wipo.int/amc/en/center/specific-sectors/rd/> accessed 15 August 2023.

[9] Management Technology Policy, 'Porter's Generic Competitive Strategies', <https://www.ifm.eng.cam.ac.uk/research/dstools/porters-generic-competitive-strategies/> accessed 10 October 2023.

transaction. This shows the inherent interlink between technology transfer and IP. For example, suppose two companies consent to transfer patented technology. In that case, the transferer must ensure that not only do they have the legal right to transfer the patent to the transferee but also that such transfer does not infringe on the rights of any third party. To ensure that such safeguards are not violated, attempts have been made to institutionalise technology transfer, for example, the guideline to measure innovation policies contained in the Oslo Manual of the Organisation for Economic and Cooperative Development ["**Oslo Manual**"] ["**OECD**"].[10] The Oslo Manual, published by the OECD and Eurostat, provides guidelines for collecting, reporting, and interpreting data regarding science, technology, and innovation. The Oslo Manual specifically provides for steps that ought to be followed when acquiring technology as it acknowledges the complexity of innovation and the demands of the mass market.[11] Multilateral efforts have also been made to regulate the transfer of technology. For instance, the United Nations Convention on Trade and Development ["**UNCTAD**"] launched the Compendium of International Arrangements on Transfer of Technology: Selected Instruments in 2001 ["**Compendium**"].[12] The Compendium recognises the need for technology transfer, especially for developing countries. The Compendium draws from over eighty international instruments and various bilateral agreements containing measures related to the transfer of technology and capacity building.

Moreover, consent forms a big part of forced technology transfer. Technology transfer is carried out broadly by keeping the tenet of consent in mind. Both parties must consent to the transfer of technology. Unilateral transfer of technology or FTT is marred by ethics violations and may lead to large-scale disputes[13] like the USA-China Trade War. The article will further discuss the USA-China Trade War in light of technology transfer.

There are many iterations of FTT. Following are some ways in which FTT can be facilitated:

i. *Foreign Direct Investment*: The 'forced' aspect of technology transfer, specifically in foreign direct investments, arises from the mandatory performance requirements for investors, which are prerequisites for foreign investors to gain access to the market of the host State. 'Forced' transfer of technology policies are government policies that are aimed at

[10] Organisation for Economic and Co-operation and Development, 'Oslo Manual 2018: Guidelines for Collecting, Reporting and Using Data on Innovation, 4th Edition' <https://www.oecd.org/science/oslo-manual-2018-9789264304604-en.htm> accessed 15 April 2023.
[11] ibid.
[12] United Nations Conference on Trade and Development, 'Compendium of International Arrangements on Transfer of Technology: Selected Instruments' <https://unctad.org/system/files/official-document/psiteipcm5.en.pdf> accessed 15 April 2023.
[13] Thomas J. Froehlich, 'Ethical Considerations in Technology Transfer' 40(2) Libr. Trends 275 <https://core.ac.uk/download/pdf/4817112.pdf > accessed 15 April 2023.

increasing foreign-domestic technology transfer while simultaneously weakening foreign innovations' appropriability.[14]

ii. *Licensing Agreements* **–** licensing approvals often contain clauses that can force a company to disclose sensitive information, which the markets usually do not require. Through this forced transfer, exclusive and sensitive company information, therefore, comes under serious threat.

iii. *Cyber Espionage* – Cyber intrusions in order to gain unauthorised access to commercially valuable information of companies, including IP, trade secrets, technical know-how, and sensitive and proprietary internal communications, also form a part of Forced Technology Transfer.

iv. *Venture Capital* ["**VC**"] *Investments* – VC investments may also allow the investor to access valuable technology of the company that is being funded. For example, through investigations, US officials have speculated that most Chinese VC investments are targeted toward US technology startups. This concentration on technology startups can enable Chinese investors to access technologies that have a dual-use applications.[15]

v. *JV Agreements* – JV agreements can be intentionally drafted in a manner that gives regulatory requirements in mind rather than commercial considerations. The investor, therefore, is left with no choice when an onerous burden is placed upon the investor but to provide their partner with trade secrets and confidential information.

Scope of arbitrability of FTT as an Intellectual Property Dispute

The scope of the article will be limited to an analysis of the arbitrability of FTT only with reference to two platforms – the World Intellectual Property Organisation ["**WIPO**"] and the International Centre for Settlement of Investment Disputes ["**ICSID**"]. An analysis of cases under WIPO will focus on IP disputes, and the cases heard in ICSID would expand on the host State's obligation toward covered investments with respect to only allegations of forced technology transfers.

WIPO Alternate Dispute Resolution ["**ADR**"] Services for Specific Sectors launched by the WIPO Centre provide dispute resolution advice and case administration services to parties engaged in

[14] Qian Yin, 'Forced technology transfer performance requirement in international investment agreements – a Chinese perspective' (2022) 17(2) JIPLP 114 <https://academic.oup.com/jiplp/article-abstract/17/2/114/6518953?redirectedFrom=fulltext> accessed 15 August 2023.

[15] Sean O' Connor, 'How Chinese Companies Facilitate Technology Transfer from the United States', (*U.S – China Economic and Security Review Commission,* 6 May 2019) < https://www.uscc.gov/sites/default/files/Research/How%20Chinese%20Companies%20Facilitate%20Tech%20Transfer%20from%20the%20US.pdf> accessed 15 August 2023.

disputes concerning technology transfer.[16] The main aim of this service platform is to avoid the need for court litigation.[17]

Although the transfer of technology can be referred to international arbitration under public bodies like WIPO, the dispute must be 'arbitrable'. Apart from the contractual issues that may arise in FDI arbitration, which have been subsequently discussed in the article, the underlying subject matter in such disputes is IP.[18] IPRs are considered private rights as public authorities cannot *motu proprio* prosecute IP violation cases.[19] The State may not act upon IP violations if the right holders refuse or fail to enforce their rights, no matter how rampant. In most cases, an IPR holder may not approach the Court and initiate litigation because of the legal costs, the scale of the case, and the expectation of winning the case. These factors may continue to perpetuate the infringement of IP.[20] This attitude essentially erodes the value of IP protection.[21] In this light, multi-jurisdictional platforms like WIPO have become an increasingly attractive alternative.

Generally, arbitrating FTT disputes is more attractive as well compared to invoking the jurisdiction of courts for several reasons. Firstly, the nature of these disputes is mostly contractual.[22] Secondly, arbitration promotes discretion and diplomacy, which helps in the preservation of commercial relationships.[23] Thirdly, FTT disputes, more often than not, involve foreign parties who prefer involving a neutral third party to avoid ancillary questions of jurisdiction and focus on the primary issues between the parties.[24] ADR enables a borderless dispute resolution mechanism, especially in FTT disputes, where a disputed licensing agreement allows a multiplicity of users to exploit intellectual property all at once.[25] Lastly, arbitration, conciliation, and mediation of specific

[16] World Intellectual Property Organisation, 'Alternative Dispute Resolution (ADR) in Research and Development/Technology Transfer' <https://www.wipo.int/amc/en/center/specific-sectors/rd/> accessed 15 August 2023.
[17] ibid.
[18] Daniel S. Hofileña, 'The Next Frontier: The Arbitrability of Intellectual Property Disputes' 51 (2022) 1(1) Asia Pacific Journal of IP Management and Innovation <https://www.dlsu.edu.ph/wp-content/uploads/pdf/research/journals/apjipmi/papers/maiden-issue/ra-4.pdf> accessed 15 August 2023.
[19] World Intellectual Property Organisation, 'The Role of The Government Authorities in The Enforcement of Intellectual Property Rights' <https://www.wipo.int/edocs/mdocs/sme/en/wipo_ipr_ju_bey_99/wipo_ipr_ju_bey_99_5b.pdf.58> accessed 15 August 2023; World Intellectual Property Organisation, 'IP & Business: Intellectual Property, Innovation, and New Product Development' <https://www.wipo.int/wipo_magazine/en/2005/04/article_0002.html> accessed 15 August 2023.
[20] Jean O. Lanjouw and Josh Lerner, 'The Enforcement of Intellectual Property Rights: A Survey of Empirical Literature' (1997) National Bureau of Economic Research Working Papers 6926 <https://ideas.repec.org/p/nbr/nberwo/6296.html> accessed 15 August 2023.
[21] Hearing before the House Judicial Subcommittee on the Courts, the Internet and Intellectual Property, 2005 <https://www.govinfo.gov/content/pkg/CHRG-109hhrg21655/pdf/CHRG-109hhrg21655.pdf>.
[22] Julia A. Martin, 'Arbitrating in the Alps Rather Than Litigating in Los Angeles: The Advantages of International Intellectual Property-Specific Alternative Dispute, Resolution', (1997) Stan. L. REV. 917.
[23] ibid.
[24] ibid.
[25] Julia A. Martin, 'Arbitrating in the Alps Rather Than Litigating in Los Angeles: The Advantages of International Intellectual Property-Specific Alternative Dispute, Resolution', (1997) Stan. L. REV. 917.

intellectual property, like patent protection of high-technology industries, have seemingly come to occupy a prominent position in the economy.[26] Arbitrating technology transfer disputes provides the opportunity to possibly use IP rights for commercial activities. Thereby, instead of an adversarial process, ADR permits parties to develop an option contract where both parties can negotiate to facilitate a potential transaction on an underlying security at a strike price.[27]

The possibility of arbitrability of these disputes largely depends on the State's recognition of the subjects which can be made arbitrable and subject matters which States want to reserve for their courts.[28] A common limit placed upon arbitrable subject matters is the refusal of a State to recognise an arbitral award, which conflates with the State's public policy. For instance, in *Mabuhay Holdings Corp. v. Sembcorp Logistics Ltd.* ["**Mabuhay Holding Corp**."],[29] the High Court of the Philippines adopted a narrow approach to the public policy norm. The refusal of enforcement was limited to the extent that it would violate the forum State's morality and justice. Hence, when it comes to the arbitrability of IP disputes, it largely depends on whether the concerned jurisdiction treats IP disputes as a matter of public policy.

There are mainly two schools of thought regarding the arbitrability of IP disputes – anti-arbitration and for-arbitration. The former school believes that since IP rights are granted by national authorities,[30] they should not be arbitrable and subjected to independent international bodies. The Court of Appeals of the United States in the case *Ballard Medical Products v. Earl Wright* ["**Ballard Medical Products**"],[31] warned arbitrators not to exceed their powers by passing decisions on the validity and invalidity of patents. In contrast, the latter school believes that IP disputes should be arbitrable. For instance, the Indian Supreme Court stated in the case of *Booz Allen Hamilton v. SBI Home Finance* ["**Booz Allen Hamilton**"][32] that every dispute can be heard by an arbitral tribunal. Although, the Court clarified that this scope is limited only to civil cases.

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[26] World Intellectual Property Organisation, 'Preface in Worldwide Forum on the Arbitration of Intellectual Property Disputes' <https://www.wipo.int/amc/en/events/conferences/1994/index.html> accessed 29 August 2023.
[27] World Intellectual Property Organisation Magazine, 'Technology Transactions: Managing Risks Arising from Disputes' <https://www.wipo.int/wipo_magazine/en/2011/05/article_0010.html> accessed 11 October 2023.
[28] Elie Kleiman and Claire Pauly, 'Arbitrability and Public Policy Challenges' in William Rowley, Emmanuel Gaillard and Gordon Kaiser (eds.), *The Guide to Challenging and Enforcing Arbitration Awards* (*Law Business Research,* 2019).
[29] *Mabuhay Holdings Corporation v Sembcorp Logistics Limited* G.R. No. 212735, 5 December 2018.
[30] International Chamber of Commerce, 'Final Report on Intellectual Property Disputes and Arbitration, International Chamber of Commerce' <https://library.iccwbo.org/content/dr/COMMISSION_REPORTS/CR_0013.htm?l1=Bulletins&l2=ICC+International+Court+of+Arbitration+Bulletin+Vol.+9%2FNo.1+-+Eng> accessed 15 August 2023.
[31] *Ballard Medical Products v Earl Wright* 823 F.2d 527 Fed. Cir. 1987.
[32] *Booz Allen Hamilton v SBI Home Finance* 2011 5 SCC 532.

Due to the uncertainty around the arbitrability of IP disputes, it is suggested that a distinction is made between arbitrable and non-arbitrable disputes depending on whether the dispute is commercial or involves public interest.

WIPO arbitration cases address the following IP issues:

- Patent Arbitrations
- Copyright Arbitrations
- Trademark Arbitrations
- Information Technology Arbitrations ["**ITA**"]

For the purpose and scope of the article, we will focus only on ITA, which addresses the transfer of technology disputes. A recent judgement on technology transfer agreements in Egypt highlighted another pertinent issue regarding the arbitrability of technology transfers. In Case No. 10305/83,[33] the Egyptian Court of Cassation stated that disputes arising out of technology transfer agreements cannot be resolved in foreign-seated arbitration proceedings, and any clause that refers such dispute to foreign arbitration is null and void.[34] Under the Egyptian Commercial Code,[35] there was already a provision (Article 87) that clearly stated that Egyptian Courts will have jurisdiction over disputes that arise from technology transfer agreements,[36] and arbitration is permitted only if it is held in Egypt.[37] The Court held this provision to be a mandatory direction. This takes away the freedom of any foreign licensor to decide upon the governing law and seat of arbitration in a transfer of technology contract with their Egyptian counterpart. Therefore, such interpretation by domestic courts can also impede the scope of arbitrability of technology transfer disputes.

Scope of arbitrability of FTT in Foreign Direct Investment

While discussing the scope of arbitration of technology transfer disputes in IPR, equal attention must also be paid to Investment treaty arbitration. Investment Treaty Arbitration mostly arises from Bilateral Investment Treaties ["**BIT**"], Free Trade Agreements ["**FTA**"], and multilateral treaties. BITs are strictly binding on the two parties. The underlying objective of such BITs is to protect each contracting State, and it confers certain duties upon the host State to secure their

[33] The Egyptian Court of Cassation, Case No. 10305/83.
[34] Jennifer Paterson and Mohammad Rwashdeh, 'Recent Judgement Highlights Potential Pitfalls in Technology Transfer Agreements in Egypt' (*K&L Gates*, 18 March 2022) <https://www.klgates.com/Recent-Judgment-Highlights-Potential-Pitfalls-in-Technology-Transfer-Agreements-in-Egypt-3-18-2022> accessed 15 August 2023.
[35] Egyptian Commercial Code 1999.
[36] Egyptian Commercial Code 1999, Article 87.
[37] ibid.

position as foreign investors against national investors. Such duties are often found in safeguards against expropriation, like in Article 5 of the Indian Model BIT. States are under an obligation to observe certain principles to afford foreign investors equal treatment. These principles or standards of treatment include fair and equitable treatment, national treatment, and Most Favoured Nation ["**MFN**"] treatment.

Recent trends like the USA-China Trade War have brought forth the importance of investor-state arbitration of technology disputes. Generally, International Investment Agreements prohibit forced tech transfer. The US Model BIT, 2012, expressly prohibits that State parties must not require foreign investors to 'transfer a particular technology, a production process, or other proprietor knowledge to a person in its territory'.

The USA-China Trade War

USA alleged in the 301 Report[38] that during COVID-19, China had been administering forced transfer of technology through regulations like Equity Joint Ventures ["**EJV**"].[39] These regulations provide no space for negotiations by the investor with the State's regulatory mechanism. These JV agreements are mainly formed with regulatory requirements in mind instead of commercial considerations. A foreign investor cannot open a Wholly Foreign Owned Enterprise ["**WFOE**"] in China without an EJV with Chinese firms. Once a WFOE partners with a Chinese enterprise, it has no choice but to provide its partner with trade secrets and confidential information.[40] This is what gives these transfers a 'forced' effect.

A landmark case, *Mobil & Murphy v. Canada* ["**Mobil & Murphy**"],[41] also highlights the forced nature that some government policies may adopt, which resultantly creates an onerous burden on the investor. In this petroleum development project-related dispute, Canada issued a set of Guidelines[42] that required the investor (the claimants) to undertake research and development expenditures which, in practice, amounted to approximately one hundred forty-seven million

[38] United States Trade Representative, 'Initiation of Section 301 Investigation, Hearing and Request for Public Comments: China's Acts, Policies and Practices related to Technology Transfer, Intellectual Property and Innovation' <https://www.federalregister.gov/documents/2017/08/24/2017-17931/initiation-of-section-301-investigation-hearing-and-request-for-public-comments-chinas-acts-policies> accessed 15 August 2023; United States Trade Representative, 'Findings of the Investigation into China's Acts, Policies and Practices Related to Technology Transfer, Intellectual Property and Innovation under Section 301 of the trade Act of 1974' <https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF> accessed 15 August 2023.

[39] Jyh-An Lee, 'Shifting IP Battlegrounds in the U.S.–China Trade War' (2020) 43 Colum. J. L. & Arts. 147 <https://journals.library.columbia.edu/index.php/lawandarts/article/view/4740> accessed 15 August 2023.

[40] ibid.

[41] *Mobil Investments Canada Inc. and Murphy Oil Corporation v. Government of Canada (I)* ICSID Case No. ARB(AF)/07/4.

[42] Canada-Newfoundland Offshore Petroleum Board, 'Guidelines for Research and Development Expenditures' <https://www.cnlopb.ca/benefits/resanddev/> accessed 15 August 2023.

dollars in forced spending for the claimants in order to get approval for their projects. The Tribunal held that these Guidelines were violative of Article 1106 of the North Atlantic Free Trade Agreement ["**NAFTA**"].[43]

The point of contention is that, ultimately, the source for such debate and confusion is that there is no standard interpretation of FTT. Presently, there is also no provision in the international regulatory framework that has explicitly acknowledged a universal standard of interpreting FTT. This is the reason why the line between 'forced' technology transfer and 'allowed' transfer of technology often becomes blurred.

Conclusion

There needs to be more space for dialogue on FTT and the arbitrability of the same. An approach advised by the author is to envisage a balanced and pragmatic approach to create a universal international framework that regulates FTT. The universality of this regulation should ideally aim at the protection and security of IP but a more cohesive environment encouraging the sharing of technology. The responsibility is subsequently on the shoulders of policymakers to design FTT policies that open the market but also discourage illegal technology transfer. Loosening the market will potentially ensure that we shift away from the monopolistic "triad" in FDI – the European Union, the USA, and Japan.[44] This can be achieved through the adoption of various strategies, namely more investment in IP management, establishing JVs only after undertaking careful due diligence and adopting stricter IP risk assessments.

[43] North American Free Trade Agreement, Article 1106.
[44] Groenbech Mimi Louise, 'Technology Transfer Through Foreign Direct Investment to developing countries – the Role of Home Country Measures' (*UNESCO*, 2011) <http://www.eolss.net/sample-chapters/c15/e1-31-03-01.pdf> accessed 15 August 2023.