

What Legal Framework for Promoting the Cross-Border Flow of Intellectual Assets (Trade Secrets and Music)? A View from Europe towards Asia (China and Japan)

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What Legal Framework for Promoting the Cross-border Flow of Intellectual Assets (Trade Secrets and Music)? A View from Europe towards Asia (China and Japan)*

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 China; Choice of law; Intellectual property; International trade; Japan; Musical works; Switzerland; Technology transfer; Trade secrets

ABSTRACT

In the information age, intellectual assets (such as trade secrets and music) are flowing across borders and between continents. However, legal hurdles may still negatively affect and prevent the smooth flow of these intellectual assets, as shown in the article. Even though the article analyses the issue from a European perspective with a view towards Asia (China and Japan), the legal issues which it identifies are typical by nature and can thus be viewed as local examples of a truly global and international issue. The analysis concludes that, beyond the potential differences in the substantive level of protection of trade secrets and of music (as resulting from the substantive intellectual property laws) which may exist between national or regional intellectual property regimes, hurdles to the cross-border flow of intellectual assets may also—and perhaps

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more importantly—result from other legal fields (such as private international law, technology import and export regulations and the regulation regarding the collective management of copyrights). As a result, any policymaker wishing to promote the cross-border flow of intellectual assets should imperatively take into account these aspects when thinking about the design of a balanced and fair policy framework.

1. INTRODUCTION

In today's information and network economy, intellectual assets are intensively flowing across national borders and between continents. This particularly applies to music which is extensively traded in the online environment and to trade secrets (also referred to as know-how), in particular when companies set up new R & D entities abroad or license out their know-how to foreign licensees.

Such cross-border exchange of intellectual assets is particularly critical for smaller countries which have no or limited natural and/or cultural resources and which thus rely on the import or export of intellectual assets for their continuing economic development and social and cultural welfare. This is specifically true, by way of example, for Switzerland (whereby the situation of Switzerland is not unique and can be compared to many other countries in the world). In view of the small size of the country,¹ Switzerland's cultural and business activities have indeed always been directed towards foreign countries. Switzerland's economy thus heavily depends and relies on exchanges with foreign countries.² In addition, in view of the relative scarcity of its natural resources, the Swiss economy is essentially a service and a high tech economy (such as in the pharmaceutical industry) in which intellectual assets play an important function.³ From this perspective, Switzerland as a country exporting business intellectual assets (such as trade secrets), similarly to other countries which are in the same position, is pleading for a broad protection of its intellectual assets (and particularly of its trade secrets) abroad. This can be particularly felt in the context of the bilateral negotiations which are conducted by Switzerland with key foreign countries (such as China and Japan).⁴

¹ Switzerland has a population of 7.5 million (2006) and a surface area of 41,293 sq km.

² See http://www.swissworld.org/en/economy/the_swiss_economy/dependence_on_trade [Accessed December 16, 2008] ("Switzerland has virtually no mineral resources and a restricted surface area. It depends for its wealth on foreign trade. The relatively small size of its domestic market—a total population of just over 7,500,000—is another factor which has encouraged Swiss manufacturers to look abroad: they need foreign markets in order to make investment in research and development worthwhile").

³ See http://www.swissworld.org/en/economy/the_swiss_economy/research_and_development [Accessed December 16, 2008] ("Overall, the important areas for Swiss exports are micro-technology, high technology, biotechnology, the pharmaceuticals industry and banking and insurance know-how").

⁴ A Memorandum of Understanding of the China-Switzerland Joint Commission on Commerce and Trade concerning the Establishment of the Working Group on Intellectual Property was signed by the Chinese Ministry of Commerce and the Public Economy Department of Switzerland on May 29, 2007; see the official press release of the State Intellectual Property Office of the People's Republic of China (SIPO) of June 15, 2007, http://www.sipo.gov.cn/sipo_English/news/official/200706/t20070615_175232.htm [Accessed December 16, 2008]; after having negotiated bilaterally with Japan, the two countries have quite recently found an agreement in principle—which was announced on September 29, 2008

At the same time, however, Switzerland is not a major producer of cultural products (such as music and films). As a result, Switzerland largely imports foreign cultural products for its local population and would thus have an interest in creating a legal framework under which the import of music should be promoted. However, a fully liberalised regime governing the import of foreign music could still negatively affect local cultural production and be detrimental to the cultural activity in the relevant host country (such as Switzerland).⁵ In any case, in today's interdependent global economy, all countries have an interest in understanding and assessing the policy issues which can affect the cross-border exchange of intellectual assets (either for import or for export purposes). With respect to trade secrets and from the perspective of an exporting country, an appropriate protection of trade secrets is viewed as essential for promoting efficient international technology transfer between nations. This particularly arises because of the need to ensure a certain flow of human capital between companies (i.e. employees leaving their companies to go to a competitor or to start their own business). Prof. John Barton (of Stanford Law School) has properly expressed:

“... [the] need for a nation to have a solid trade secret protection system that protects licensees and investors against direct theft of their technology. A technology supplier's choice to license or invest or not reflects the economic benefits and costs it sees from the transaction, and it must take into account the risk that the technology will leak to competitors or be used to create a new competitor. In the global market, it may be able to protect itself with intellectual property rights; if the local market is significant, the availability of solid rights in that market may matter as well. Although this may primarily involve rights on the final product, it will also involve trade secret law and rules governing the possibility that employees will leave and take the technology elsewhere.”⁶

This is precisely where the respective positions and policies of the exporting country and of the host country may diverge to the extent that the host country will have an

(<http://www.mofa.go.jp/region/europe/switzerland/joint0809.html> [Accessed December 16, 2008])—which will lead to a Free Trade Agreement and Economic Partnership Agreement (FTEPA), for a general and chronological presentation of the bilateral negotiations and of their steps; see <http://www.mofa.go.jp/policy/economy/fta/switzerland.html> [Accessed December 16, 2008]; in the context of these bilateral negotiations, the issue of intellectual property rights, and specifically of trade secrets, has been identified as critical on the Swiss side: “Swiss side pointed out the importance of a strong level of protection of undisclosed information in a possible FTA/EPA”. Report of the Joint Governmental Study Group for strengthening economic relations between Japan and Switzerland, January 2007, p.19, available at <http://www.mofa.go.jp/region/europe/switzerland/report0701.pdf> and <http://www.news-service.admin.ch/NSBSubscriber/message/attachments/6536.pdf> [Accessed December 16, 2008].

⁵ As this will be seen below with respect to the collective management of on-line rights by copyright collecting societies in Europe, see below 3.3; for this reason, a focus on Switzerland appears interesting to the extent that the same country may need to consider different policies depending on the type of intellectual assets because it may be at the same time an exporter of *business* intellectual assets (such as trade secrets) and an importer of *cultural* intellectual assets (such as music).

⁶ See John H. Barton, “News Trends in Technology Transfer and their implications for national and international policy” (ICTS, February 2007), at p.23, available online at <http://www.iprsonline.org/resources/docs/Barton%20-%20New%20Trends%20Technology%20Transfer%200207.pdf> [Accessed December 16, 2008].

interest in making sure that the imported know-how can circulate and be reused in order to promote its local industries and economy.

The issue of the sufficient protection of trade secrets in the host country particularly arises when global multinational companies have to decide where to set up research and development centres.⁷ The importance of the efficient protection of trade secrets for R & D activities was expressly emphasised in the UNCTAD World Investment report (2005) on Transnational Corporations and the Internationalization of R&D which stated that:

“For R&D—and innovation in general—the most relevant types are patents and trade secrets. Trade secrets may in fact be even more important than patents for a country to be able to attract FDI in R&D. To the extent that the R&D process involves sensitive information, TNCs [transnational corporations] will always seek to protect trade secrets against disclosure.⁸

This is particularly relevant for Switzerland and for Swiss industries that intensively rely on technological and business trade secrets⁹ and have in particular set up important research and development centres in both China and Japan.¹⁰ It is also important to emphasise that the issue of trade secrets does not only affect major multinational corporations, but also—and perhaps even more—smaller business entities (which may not have the financial means to protect their intellectual assets by patents for costs reasons and may consequently rely more on the protection of trade secrets). As a result, the issue of trade secrets is also of concern for smaller business entities (SME).¹¹

Turning to music, and from the perspective of a country exporting music and other copyright protected products (such as the United States), the willingness of such a country to promote the export of music and the cross-border flow of music similarly depends on the level and efficiency of the protection system which exists in the host country. However, the control over the cross-border flow of music appears significantly more difficult than it is the case for trade secrets in view of the massive copyright infringement activities taking place on the internet (resulting from the uncontrollable and large-scale peer-to-peer network use). By contrast, from the standpoint of the

⁷ See with respect to China, e.g., Fred Greguras, “Intellectual property strategy and best practices for R&D services in China” [2007] *Computer Law & Security Report* 449.

⁸ http://www.unctad.org/en/docs/wir2005_en.pdf, p.209 [Accessed December 16, 2008].

⁹ Based on recent statistical data, Switzerland’s export of high technology products has doubled in the last 10 years, see press release of the Swiss federal administration, December 11, 2007, available in French at <http://www.news-service.admin.ch/NSBSubscriber/message/attachments/10512.pdf> [Accessed December 16, 2008].

¹⁰ For an analysis whether the setting up of R & D centres by Swiss companies outside of Switzerland may affect the ability of Switzerland to innovate in the future, see the interesting report of Spyros Arvanitis *et al.*, “Le pôle de recherche et de technologie suisse en comparaison internationale”, *La Vie économique*, December 2005, available in French at [http://www.seco.admin.ch/dokumentation/publikation/00007/00046/02173/index.html?lang=fr&download=NHZLpZig7t,lnp6I0NTU042I2Z6ln1ae2IZn4Z2qZpnO2Yuuq2Z6gp\]CEdo\]6fmyym162dpYbUzd,Gpd6emK2Oz9aGodetmqaN19XI2IdvoaCVZ,s-](http://www.seco.admin.ch/dokumentation/publikation/00007/00046/02173/index.html?lang=fr&download=NHZLpZig7t,lnp6I0NTU042I2Z6ln1ae2IZn4Z2qZpnO2Yuuq2Z6gp]CEdo]6fmyym162dpYbUzd,Gpd6emK2Oz9aGodetmqaN19XI2IdvoaCVZ,s-) [Accessed December 16, 2008].

¹¹ Which is confirmed by the activities developed by the WIPO SME Division in these fields; see http://www.wipo.int/sme/en/ip_business/trade_secrets/trade_secrets.htm and http://www.wipo.int/sme/en/documents/wipo_magazine/05_2002.pdf [Accessed December 16, 2008].

countries which import foreign music, their position may diverge from the one of the music exporting countries to the extent that they can potentially be concerned by the need to promote local musical expressions as well as their local music collecting management societies. On this basis, for music too, diverging approaches and policies may arise with respect to the promotion of the cross-border flow of music depending on whether the country at issue is importing or exporting music. Against this background, the goal of this article is to identify and discuss from a European perspective (with an accent on Switzerland) and with a view towards Asia (and more specifically towards China and Japan) the legal issues which may affect the cross-border flow of trade secrets and music, whereby a specific focus will be made on issues of private international law which typically arise in a cross-border context. The ultimate aim of the article is thus to help identify and understand the legal issues which should be addressed when shaping a policy framework for promoting the global cross-border flow of business and cultural intellectual property assets. For this purpose, this article will analyse separately the case of trade secrets and of music and will first turn to trade secrets (see below 2), and then to music (see below 3). On the basis of this analysis, reflections will be formulated in view of the definition of policies (see below 4).

2. TRADE SECRETS

2.2 The international protection of trade secrets

Since the entering into force of the TRIPS Agreement on April 1, 1995,¹² the international basis for the protection of trade secrets is anchored in art.39, which provides under the title “protection of undisclosed information” that:

- “ 1. In the course of ensuring effective protection against unfair competition as provided in Art. 10*bis* of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3.
2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices (10) so long as such information:
 - (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
 - (b) has commercial value because it is secret; and
 - (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.
3. Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the

¹² Agreement on Trade-related Aspects of Intellectual Property Rights, Annex 1C to the Agreement establishing the World Trade Organization.

origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.”

As explained in footnote 10 of the TRIPS (which clarifies the notion of “a manner contrary to honest commercial practices” used in art.39 para.2):

“[f]or the purpose of this provision, ‘a manner contrary to honest commercial practices’ shall mean at least practices such as breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.”

Without analysing in details the scope and interpretation of this relatively complex provision, it can be noted that it leaves a relatively broad freedom to the Member States in its implementation.¹³

The scope of the protection of the so-called “test data” provided under art.39(3) TRIPS is also relatively uncertain. One key question which is raised in this context is the meaning of the terms “unfair commercial use” against which the test data are supposed to be protected (for which no explanatory footnote has been inserted by contrast to the footnote 10 referred to above explaining the meaning of the expression “a manner contrary to honest commercial practices”).¹⁴ Most specifically, the issue is whether national health authorities are allowed to rely on test data submitted by the initial applicant for assessing subsequent applications made by a third party.¹⁵ Some uncertainty also surrounds the issue of the existence and extent of an exclusivity period during which the test data may not be used which does not seem to be imposed by art.39.3 TRIPS.¹⁶

¹³ For this purpose, see the analysis of this provision made in the TRIPS commentaries of Daniel Gervais, *The TRIPS agreement: drafting history and analysis* (2007), para.2.349, and of Carlo M. Correa, *Trade related aspects of intellectual property rights : a commentary on the TRIPS Agreement* (2007), pp.369 *et seq.*; see also François Dessemontet, “Protection of Trade Secrets and Confidential Information” in Carlos M. Correa and Abdulqawi A. Yusuf (eds), *Intellectual Property and International Trade: The TRIPS Agreement* (1998), available at <http://www.unil.ch/webdav/site/cedidac/shared/Art.s/Protection%20Trade%20Secrets.pdf> [Accessed December 16, 2008]; and the two excellent Swiss doctoral thesis of Tobias Meili, “Der Schutz von Know-how nach schweizerischem und internationalem Recht—Anpassungsbedarf aufgrund des TRIPS-Abkommens?” (2000) and of Ingo Meitinger, “Der Schutz von Geschäftsgeheimnissen im globalen und regionalen Wirtschaftsrecht : Stand und mögliche Entwicklungen der Rechtsharmonisierung” (2001).

¹⁴ See Ingo Meitinger, “Implementation of Test Data Protection According to Art. 39.3 TRIPS: The Search for a Fair Interpretation of the Term ‘Unfair Commercial Use’” (2005) 8(2) *Journal of World Intellectual Property* 123, 127.

¹⁵ For a presentation of the diverging opinions on this issue, see Meitinger, “Implementation of Test Data Protection According to Art. 39.3 TRIPS” (2005) 8(2) *Journal of World Intellectual Property* 123, 127–128 and for a proposition that the protection shall also be granted against the mere reliance of the second applicant on the test data submitted by the initial applicant.

¹⁶ See Meitinger, “Implementation of Test Data Protection According to Art. 39.3 TRIPS” (2005) 8(2) *Journal of World Intellectual Property* 123, 134–135.

By way of example, in Switzerland, reference to test data by subsequent applicants is generally allowed after 10 years starting from the time of the marketing approval of the original drug.¹⁷ The enforcement of the protection of undisclosed information under art.39 TRIPS is governed by the rules of arts 41 *et seq.* TRIPS. However, one difficulty results from the fact that it is uncertain whether an injunctive relief can be granted in the case of undue disclosure of confidential information. In such a case indeed, the relevant information would not be protectable because it is not secret anymore. In addition, by contrast to wilful copyright and trade mark infringement activities (art.61 TRIPS), no criminal sanctions are requested by TRIPS for acts of violation of the protection of undisclosed information under art.39 TRIPS which can consequently be optionally implemented by the Member States.

On this basis, it appears that art.39 TRIPS provides a relatively flexible framework of protection of trade secrets and that national legislative and judicial authorities enjoy a certain freedom with respect to how they shall implement the protection of trade secrets (i.e. undisclosed confidential information) without violating the minimum standard of protection imposed by art.39 TRIPS.¹⁸ Therefore barriers to the cross-border transfer and exchange of trade secrets can still exist between countries as a result of diverging national legislative systems some of which will now be identified and discussed (by focusing on Europe—and most specifically on Switzerland—and on China and Japan).

2.2 Hurdles to the cross-border exchange of trade secrets

The various legal hurdles which may hinder or prevent the cross-border transfer and exchange of trade secrets can be classified into different categories, which will be separately analysed.

The first category relates to hurdles which result from the efficiency of the protection of trade secrets at the level of substantive law (see below 2.2.1). The second category relates to hurdles resulting from regulatory constraints (see below 2.2.2). The third category results from the rules of private international law (see below 2.2.3).

2.2.1 Hurdles resulting from substantive law

It is obvious that potential deficiencies in the legal protection of trade secrets at the level of substantive law in a country may negatively affect the cross-border transfer of trade secrets to that country to the extent that a company will not be willing to invest in a country and to invest in research and development or other information sensitive activities if it considers that the level of protection of trade secrets (and of intellectual property in general) is not sufficient.¹⁹ Given that intellectual property leakage (for trade secrets) is frequently caused by (ex-)employees, one practical approach to try to ensure an efficient protection is to enter into protective contracts with employees under

¹⁷ See art.12 of the Swiss Federal Act on Therapeutic Products and Medical Devices of December 15, 2000 (Systematic Collection of Swiss Law [SC], SC 812.21) and art.17 of the Federal Ordinance on Drugs of October 17, 2001 (SC 812.12.21).

¹⁸ See Ingo Meitinger, "Die globale Rahmenordnung für den Schutz von Geschäftsgeheimnissen im TRIPS-Abkommen der WTO und ihre Auswirkungen auf die Rechtslage in der Schweiz" (2002) 3 *Swiss Intellectual Property, Information and Competition Law Review* 145, 158.

¹⁹ On the impact of intellectual property protection on the decision to invest, see text at fnn.182 to 184 below.

which extensive obligations of confidentiality and (to the extent admissible) broad non-compete undertakings are imposed.²⁰

However, data confirm that the efficiency of legal protection and enforcement methods should not be overestimated because strategies against IP leakage should—perhaps predominantly—be based on non-legal factors,²¹ such as building loyalty and trust of employees for their employers and using other “factual protection strategies”.²²

By way of example, under Swiss law, the protection of trade secrets is based on different legal sources, the most important of which are the Swiss Act against unfair competition law (SAUCL)²³ and the Swiss criminal code.²⁴ It may be wondered whether the protection granted under the SAUCL complies with the minimal requirements of Art. 39 TRIPS, even though it has been considered that art.39 TRIPS would be self-executing and thus be directly applicable because its content is sufficiently precise and specific so that any alleged insufficient protection under Swiss law would not be relevant.²⁵ Pursuant to fn.10 in art.39 TRIPS, the protection shall indeed extend to acts of “acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition” (emphasis added). By contrast, under Swiss unfair competition law, the protection arises only in case of undue use or communication of the undisclosed information to a third party (and not acquisition).²⁶ From this perspective, it may be wondered whether Swiss law fully complies with the minimal level of protection required by art.39 TRIPS.

However, in another respect, Swiss law provides more certainty than the imprecise protection provided under TRIPS. Under TRIPS, it is indeed unclear whether the unauthorised disclosure would prevent the enforcement of protection on the ground

²⁰ For a recent analysis for China, see Marisa Anne Pagnattaro, “Protecting Trade Secrets in China: Update on Employee Disclosures and the Limitations of the Law” (2008) 45 Am. Bus. L.J. 399; see also Marisa Anne Pagnattaro, “‘The Google Challenge’: Enforcement of Noncompete and Trade Secret Agreements for Employees Working in China” (2007) 44 Am. Bus. L.J. 603.

²¹ Based on data gathered by CH-ina (Shanghai) Co Ltd published in “Behind the China Kaleidoscope: A Guide to China Entry & Operations” (<http://www.chinaguide.ch>) which was generously made available to the author by Mr Nicolas Musy which is gratefully acknowledged, it results that among Swiss companies doing business in China the “most promising measures to prevent the loss of know-how in China” are not enforcement of contracts (only 55.5% of the surveyed persons gave that answer), but rather “human resources management (selecting & retaining staff, incentives and punishment to avoid loss of IP, restricting and separating access to information among employees” (73.25%) and “avoiding the transfer of complete blocks and modules of know-how” (69.75%).

²² See Marcus Matthias Keupp, Angela Beckenbauer, Oliver Gassmann, “Safeguarding intellectual property rights in emerging economies: The case of factual protection strategies in China” (2007), summary available at <http://www.alexandria.unisg.ch/Publikationen/36551> [Accessed December 16, 2008], to be published in *Management International Review* (2009).

²³ Swiss Act against Unfair Competition Law of December 19, 1986 (SC 241) arts 4a and 6.

²⁴ Swiss Criminal Code of December 21, 1937 (SC 311.0) art.162; for a presentation of the sources of protection of trade secrets under Swiss law, see François Dessemontet, “Le savoir-faire” in Roland von Büren and Lucas David (eds), *Schweizerisches Immaterialgüter- und Wettbewerbsrecht*, Vol.IV (2006), pp.841 *et seq.*

²⁵ See Dessemontet, “Le savoir-faire” *Schweizerisches Immaterialgüter- und Wettbewerbsrecht* (2006), p.862 ; Meili, “Der Schutz von Know-how nach schweizerischem und internationalem Recht (2000), p.136.

²⁶ See Meili, “Der Schutz von Know-how nach schweizerischem und internationalem Recht (2000), p.163.

that once the relevant information has been disclosed (even unduly disclosed), such information cannot qualify anymore as a secret under art.39 TRIPS.²⁷ Under Swiss law, case law has made clear that such disclosure does not prevent the enforcement of protection against those who have unduly disclosed and are using the relevant trade secrets.²⁸

Turning to the issue of the protection of trade secrets in employment relationships, this is clearly an issue of public policy to the extent that a too stringent protection may hamper and harm the free movement of the employees to change job and may be detrimental to their professional development and career. By way of illustration, Swiss contract law provides for an obligation of confidentiality of employees relating to the trade secrets of their employer.²⁹ In addition, the protection against the misuse of confidential information can also be implemented by the way of post-termination non-competition clauses. Such clauses are, however, subject to relatively restrictive conditions in terms of duration and of substantive and geographic scope of the non-competition undertaking.³⁰ Based on its case law, it seems that the Swiss Supreme Court has adopted a relatively pro-employee approach as confirmed in a recent decision.³¹ In that case, the Swiss Supreme Court has confirmed that an employee has, as a matter of principle, the obligation to protect the legitimate interests of the employer in good faith (art.321a(1) SCO) because employees have a duty of loyalty towards their employers. However, such duty of loyalty reaches its limits when the own interest of the employee with respect to the development of its own personality is at stake, to which the interest for a future professional activity belongs. On this basis, an employee can validly prepare a future job while being employed by its present employer. Such employee would nevertheless violate his duty of loyalty when such preparatory work goes beyond the good faith limits of reasonableness. With respect to the extent of the obligation of confidentiality of an ex-employee after the term of the employment agreement, the Swiss Supreme Court has confirmed that this issue requires to balance the respective interests of the employer to protect and maintain the productivity of its company and of the employee to have a new professional activity (in the spirit of free competition). In that case, the Swiss Supreme Court held that the employer had not established that his ex-employee had used confidential data in the employee's new professional project (which were allegedly reused in a business plan prepared by the ex-employee). As a result, the Swiss Supreme Court held that no misappropriation of trade secrets had been committed.

On this basis, it appears that the protection against the misappropriation of trade secrets is relatively broad and efficient under Swiss law (and particularly under unfair

²⁷ See Meitinger, "Implementation of Test Data Protection According to Art. 39.3 TRIPS" (2005) 8(2) *Journal of World Intellectual Property* 123, 152.

²⁸ See decision of the Swiss Supreme Court ATF 88 II 319, at 323: "Certes, le secret a été divulgué en tout cas à Bunter SA et le bien protégé à l'art. 1er al. 2 litt. g LCD n'existe plus. Les frères Cotter et leur société toutefois, eux du moins, ne sauraient persister dans l'usage d'un bien acquis par un délit sans violer gravement les règles de la bonne foi (art. 1er al. 1 LCD). Ils ne peuvent se prévaloir de la divulgation, conséquence de leur infraction: *nemo auditur turpitudinem suam allegans*."

²⁹ See Swiss Code of Obligations (SCO) of March 30, 1911 (SC 220) art.321a(4).

³⁰ See SCO art.340.

³¹ Decision of June 21, 2007; ref. 4C.69/2007.

competition law) as a matter of principle, even though such protection appears weaker in employer–employee relationships for which the promotion of the free movement of human capital (i.e. employees) is ensured. It should, however, be noted that Swiss labour law remains relatively protective to the extent that it provides as a default rule (art.321a(4) SCO) that trade secrets of the employer are to be kept (by an obligation of confidentiality of the employee) even after the termination of the employment agreement, whereby by contrast foreign regulations (such as the Chinese one) do not contain such default rule but rather require that such obligation of confidentiality shall be expressly set forth in the employment contract.³²

Finally, the issue of the protection of trade secrets (and more specifically of technological know-how) can also arise in the context of joint research and development agreements. It seems to result from the case law of the Swiss Supreme Court³³ that the scope of protection against the reuse of trade secrets after the termination of such joint R & D agreement is getting more limited. While the older cases were relatively protective for the owner of the trade secrets, the new cases appear less favourable by holding that when parties co-operate together for the joint development of a technology, the technology (which may constitute know-how) which is created can be freely used by each of these parties after the termination of their co-operation unless specific circumstances exist (which would show that such post-termination use would be unfair within the meaning of the SAUCL).³⁴ This indicates that unless the parties have contractually addressed this issue, the parties to a joint research project may freely use the shared know-how after the termination of such project.

Other limits to the protection of trade secrets may result from the decompilation of software products (it being noted that source code can be covered by trade secrets). The protection of trade secrets (as embodied in the source code of a computer program) as well as of copyright may indeed conflict with the right of third parties to decompile the computer software in order to gain access to its source code for the purpose of creating an interoperable product (i.e. exception for decompilation purposes which derives from competition law).³⁵ Under Swiss law, such right of decompiling a software

³² See a summary of the new Chinese labour contract law which entered into force on January 1, 2008 at <http://www.mondaq.com/Art..asp?Art.id=56782> [Accessed December 16, 2008]; see an unofficial translation at <http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?Art.=1026&context=intl> [Accessed December 16, 2008] (in particular art.17 in fine and art.23 providing for the ability of the contracting parties to agree on an obligation of confidentiality of employees).

³³ See the following decisions of the Swiss Supreme Court: ATF 77 II 263, JdT 1950 I 200; ATF 93 II 272, JdT 1968 I 130; TF, 4C.163/2000.

³⁴ See [3(a)(aa)] of 4C.163/2000: “Haben die Parteien ein Erzeugnis in einer fortgesetzten Rechtsbeziehung entwickelt, bei der beide Partner die Anstrengungen zur Verbesserung vereinen, so wird dieses Arbeitsergebnis gemeinsames Gut, welches nach Beendigung der Zusammenarbeit mangels anderer Parteivereinbarung von beiden Parteien verwertet werden darf, sofern keine besonderen Umstände vorliegen”.

³⁵ This issue has also been discussed quite intensively in Japan; see Rohan Mishra, “Reverse Engineering in Japan and the Global Trend Towards Interoperability” 1997) 4(2) *Murdoch University Electronic Journal of Law*, available at <http://www.murdoch.edu.au/elaw/issues/v4n2/mishra42.html> [Accessed December 16, 2008]; see also the book by Jonathan Band and Masanobu Katoh, *Interfaces on Trial* (Boulder: 1995); Petra Heindl, *A Status Report from the Software Decompilation Battle: A Source of Sores for Software Copyright Owners in the United States and the European Union?*, TTLF Working Paper No. 1, see http://www.law.stanford.edu/program/centers/ttlf/papers/heindl_wp1.pdf [Accessed January 16, 2009].

product (by reverse engineering) cannot be waived by contract,³⁶ which shows that the anti-competitive effects of such clause are held more important than the protection of the trade secrets of the software product.³⁷ It has even been argued under European law that antitrust law would unduly affect the scope of the substantive protection of trade secrets because the European authorities³⁸ would have set too high a threshold of protection for trade secrets.³⁹ On this basis, it appears that antitrust law can affect the scope of protection of trade secrets, in particular in a contractual context. A comparable threat to the (contractual) protection of trade secrets results, by way of example, from art.329 of the Contract Law of the People's Republic of China which provides that "a technology contract is ineffective if it illegally monopolizes the technology, impedes technological advances, or hampers other parties' technological creation".

These examples confirm that even though trade secrets are internationally protected and harmonised by art.39 TRIPS, the implementation of such protection can still significantly diverge from one country to the other, as shown (with the example of Switzerland), in particular in labour relationships, in joint R & D projects, or as a result of the application of antitrust law (with respect to the issue of decompilation/reverse engineering of software programs).

2.2.2 Hurdles resulting from regulatory constraints

From the perspective of a private company which considers to export technology assets (protected by trade secrets and know-how) to a certain country and to set up entities for conducting technology creating activities (R & D centres), the decision of doing so will not only depend on the scope of protection of these assets in the relevant country at the level of substantive law, but also from other legal factors.

³⁶ See Swiss Copyright Act of October 9, 1992 (SC 231.1) art.21; the same principle applies under EU law, see arts 6 and 9 of the EU Software Directive 91/250; under US law, see *Bowers v Baystate Technologies* 320 F. 3d 1317 (Fed. Cir. 2003).

³⁷ The view is also expressed that reverse engineering generally does not constitute an act of unfair competition under Swiss unfair competition law; see Meili, "Der Schutz von Know-how nach schweizerischem und internationalem Recht (2000), pp.87–89.

³⁸ See the excerpt of the speech of Neelie Kroes, EU Commissioner for Competition Policy, delivered on June 10, 2008 in Brussels (available at <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/08/317> [Accessed December 16, 2008]):

"In addition, the growing importance of software means that copyright and, in particular, trade secret protection is often just as important as patents, if not more so, in technology markets. But:

- Laws on copyright and trade secrets rightly do not require disclosure of software source code before protection is granted.
- Trade secrets are not limited in time—and in effect, as far as technology is concerned, neither is copyright.
- And of course copyrights and trade secrets may not be technologically innovative.

Where interoperability information is protected as a trade secret, there may be a lot of truth in the saying that the information is valuable because it is secret, rather than being secret because it is valuable.

This raises the possibility of perpetual exclusion, based on technology which is not even innovative."

³⁹ See Christoph Ann, "Know-How—Stiefkind des Geistigen Eigentums?" [2007] G.R.U.R. 2007 39, who criticises the fact that the EU Commission in the Microsoft antitrust dispute has considered that the protected know-how (for which no obligation of disclosure for purpose of interoperability shall apply) shall be restricted to information that involves an inventive step and is novel compared to the prior art; for a critical analysis; see Katarzyna A. Czapracka, "Antitrust and Trade Secrets: The U.S. and the EU Approach" (2008) 24 Santa Clara Computer & High Tech. L.J. 207, 269–272.

Among these factors is the risk of compulsory disclosure of trade secrets either for the purpose of obtaining a regulatory approval for conducting the relevant activity or at the time when enforcement of trade secrets would be sought before courts (see below 2.2.2.1), the corporate structure which may be imposed to conduct business in a foreign jurisdiction (see below 2.2.2.2) and the technology import/export regulations existing in such country (see below 2.2.2.3).

2.2.2.1 Compulsory disclosure of trade secrets

A company may hesitate to enter into a foreign market if such entering would require the disclosure of trade secrets for the purpose of obtaining regulatory approval for conducting such activity or in order to take part to public tenders.⁴⁰ Risks may be prevented or minimised if only the relevant elements of the trade secrets are to be disclosed and if the authorities to which such information disclosed are held to a high obligation of confidentiality. By way of example, an improvement of protection is pushed for in China by European business interest groups.⁴¹

Risks of loss of protection of trade secrets by forced disclosure may also arise as a result of the obligation of disclosing the relevant trade secrets at the time of enforcing the protection against a third party (which would have allegedly misappropriated such trade secrets) before a state court or at the time when an arbitral award would be challenged before a state court.⁴² Even though the Swiss Federal Constitution provides for the principle that court hearings and court decisions are public, it also states that exceptions can be provided for by law.⁴³ With respect to trade secrets more specifically, art.15 SAUCL provides that in dumping cases (i.e. offer of products or services below their effective cost) the trade secrets of the parties are to be protected. It shall also be noted that the protection of trade secrets will in principle be ensured in a unified manner in the new Swiss Code of Civil Procedure which provides (art.156) under the title "Protection of Legitimate Interests" that "the Court may order measures for the purpose of avoiding that the taking of evidence shall threaten legitimate interests of the parties in dispute or of third parties, *such as trade secrets*" (emphasis added).⁴⁴ This type

⁴⁰ This is for instance required for setting up franchising activities in China; on this issue, see <http://www.objectif-chine.com/2008/03/17/franchising-in-china/> [Accessed December 16, 2008]; for other examples concerning China, see the document recently released by the European Commission, "Technology transfer to China: Guidance for businesses" (http://www.china-iprhelpdesk.eu/media/docs/Tech_transfer_English.pdf) [Accessed December 16, 2008], warning European businesses against common situations arising in China in which European technology may get lost (joint ventures, public contract/procurement, design institutes, and certification and licenses for market access) and containing recommendations for limiting the risks in these circumstances.

⁴¹ See the position paper of the Intellectual Property Rights (IPR) Working Group of the European Union Chamber of Commerce in China (2007/2008) (IPR EUCCC Position Paper), recommending—among other measures to be taken by the Chinese authorities—to "dispatch clear instructions to restrict the disclosure of technical know-how to what is strictly necessary for the required licenses relating to commercialisation of a product or the construction of a plant" and to "clearly define the obligations of all governmental officers and their related institutes and enforce the liability and sanctions against those who disseminate confidential information without permission".

⁴² On this issue, see below 3.2.2.

⁴³ See Swiss Federal Constitution of April 18, 1999 (SC 101) art.30(3).

⁴⁴ The Swiss Code of Civil Procedure has been adopted by the Parliament on December 19, 2008 and is available on line at <http://www.admin.ch/ch/f/ff/2009/21.pdf> [Accessed January

of difficulties of enforcement of trade secrets has been particularly noted with respect to the Japanese court system,⁴⁵ even though new regulations have been adopted in order to improve the protection (which provide for the grant of protective orders).⁴⁶ However, the efficiency of these new regulatory measures has been put into question in the legal literature.⁴⁷

These issues show in any case that independently from the substantive scope of protection of trade secrets in a given jurisdiction (resulting in particular from unfair competition law and labour law), the cross-border flow of trade secrets may be prevented if it is considered that trade secrets could be threatened because they may have to be disclosed either for the purpose of conducting business in the relevant jurisdiction (this issue being raised in China) and/or at the time when enforcement of the protection of such trade secrets would be sought before state courts in the relevant jurisdiction (this being complained about in Japan). From this perspective, as will be analysed below,⁴⁸ it may be appropriate to find alternative resolution methods, such as mediation⁴⁹ or

16, 2009]; it shall enter into force at an unspecified date knowing that the act is subject to a potential referendum until April 16, 2009 (see http://www.ejpd.admin.ch/ejpd/fr/home/themen/staat_und_buerger/ref_gesetzgebung/ref_zivilprozessrecht.html [Accessed January 16, 2009]). Similarly, the Swiss Code of Criminal Procedure which has been adopted by the Parliament on October 5, 2007 (it shall enter in force not before January 1, 2011) provides for a comparable exception to the rule of publicity of criminal court proceedings (art.70). It is available on line at: <http://www.admin.ch/ch/f/ff/2007/6583.pdf> [Accessed January 16, 2009].

⁴⁵ See USTR, National Trade Estimate Report on Foreign Trade Barriers (2007), p.327 (available online at http://www.ustr.gov/assets/Document_Library/Reports_Publications/2007/2007_NTE_Report/asset_upload_file855_10945.pdf [Accessed December 16, 2008]): although Japan amended its Civil Procedures Act to improve the protection of trade secrets in Japanese courts by excluding court records containing trade secrets from public access, the law is inadequate. Because Japan's Constitution prohibits closed trials, the owner of a trade secret seeking redress for misappropriation of that secret in a Japanese court is forced to disclose elements of the trade secret in seeking protection. Because of this, and the fact that court discussions of trade secrets remain open to the public with no attendant confidentiality obligation on either the parties or their attorneys, protection of trade secrets in Japan's courts will continue to be considerably weaker than in the courts of the United States and other developed countries. The Diet passed a Bill to partially amend the Unfair Competition Prevention Law in May 2003. The Bill contains a provision that states that a person who illegally acquires, uses, and discloses corporate secrets is subject to criminal sanctions. The scope of the amendment, however, is limited. The United States continues to urge Japan to undertake further reform.

⁴⁶ See Masako Yajima, "Privileges and Protection of Trade Secrets in Japan", *IBA International Litigation News*, October 2004, p.29.

⁴⁷ See Yajima, "Privileges and Protection of Trade Secrets in Japan", *IBA International Litigation News*, October 2004, pp.31 *et seq.*

⁴⁸ See below 3.2.

⁴⁹ It being noted that mediation is now a "mainstream" alternative dispute resolution method at least in Europe, as evidenced by the recent adoption of Directive 2008/52 of the European Parliament and of the Council of May 21, 2008 on certain aspects of mediation in civil and commercial matters and that mediation is also viewed as an appropriate and useful method for solving intellectual property disputes; see David W. Plant, *We Must Talk Because We Can—Mediating International Intellectual Property Disputes* (Paris: ICC Publication No.695, 2008), and Jeremy Lack, "National Intellectual Property Rights: The Importance of Mediation in an Increasingly Global and Technological Society" (2006) 72 *Arbitration* 325 available at: http://www.altenburger.ch/uploads/tx_altenburger/jl_2006_National_Intellectual_Property_Rights.pdf [Accessed January 16, 2009] in this article, the focus of the analysis will however be on arbitration (see below 3.2), bearing in mind that contracting parties can adopt dispute resolution systems

arbitration, which could better ensure the confidentiality of both the dispute itself as well as—more importantly—of the underlying trade secrets.

2.2.2.2 Corporate structure

Another risk could also result from the corporate structure which may be imposed for conducting business in a foreign jurisdiction. For some types of business activities and industries, local regulations may indeed impose that foreign companies shall enter into a joint venture with a local entity and shall simultaneously impose the mandatory application of local laws as the law governing the contractual relationship relating to the joint venture.⁵⁰ Such imposition of a joint venture structure may create new dangers for misappropriation of trade secrets,⁵¹ which could be committed by employees of the joint venture.⁵² The obligation to set up of a joint venture entity (which may be potentially imposed by local regulations) to which trade secrets would be disclosed/licensed may

which combine mediation (in a first step) and arbitration (in a second step, if mediation is unsuccessful), see the standard contractual mediation–arbitration clause provided by the WIPO mediation and arbitration centre at <http://www.wipo.int/amc/en/arbitration/contract-clauses/clauses.html#2> [Accessed December 16, 2008].

⁵⁰ This is for instance the case under the recent Chinese Rules of the Supreme People's Court on Related Issues concerning the Application of Law in Hearing Foreign-Related Contractual Dispute Cases Related to Civil and Commercial Matters which entered into force on May 1, 2008. (http://www.fdi.gov.cn/pub/FDI_EN/Laws/GeneralLawsandRegulations/JudicialInterpretation/P020070905634447818232.pdf [Accessed December 16, 2008]) providing that “[t]he performance of any of the following contracts within the territory of the People's Republic of China shall be subject to the law of the People's Republic of China: (1) Contract on a Chinese-foreign equity joint ventures; (2) Contract on a Chinese-foreign contractual joint ventures . . .”.

⁵¹ See Gabriela Kennedy and Douglas Clark (2006) 22(3) *Computer Law & Security Report* 250, 251: “in some industries it is legally necessary to establish a joint venture. For commercial reasons, it may also sometimes be necessary to establish a joint venture, for example where it has been agreed to conduct research and development with a Chinese party for the purpose of developing new products for the Chinese market. From an IP perspective, the greatest risk in establishing a joint venture is the leaking of technology transferred and developed by the joint venture to the Chinese partner and its parent. This is particularly a great risk if the Chinese joint-venture partner is a state-owned enterprise (SOE). SOEs remain under the control of the ministry in the industry in which they work. If any part of the government above an SOE requires them to share technology that has been transferred as part of a joint venture, then there is a great likelihood that the Chinese party will pass the information to the entities above them. Naturally, as with WOFEs, there remains the risk that IP or trade secrets will leak or be misappropriated”; see also Keith Bradsher, “Chinese partner of GM strikes out on its own”, *International Herald Tribune*, April 11, 2006 (<http://www.ihf.com/Art.s/2006/04/10/business/cars.php> [Accessed December 16, 2008]): “Multinational companies have long tried to avoid sharing joint venture partners in overseas markets, for fear of losing trade secrets.”

⁵² See the document “Technology transfer to China: Guidance for businesses” (http://www.china-iprhelpdesk.eu/media/docs/Tech_transfer_English.pdf [Accessed December 16, 2008]), referring to the issue of the “compulsory joint ventures for market access”; see also IP Australia China Factsheet (<http://www.ipaustralia.gov.au/pdfs/factsheets/G17032%20IP%20Fact%20Sheet%20CHINA.pdf> [Accessed December 16, 2008]): “the misappropriation of IP and theft of trade secrets—including both patented and non-patented technology and other valuable business information—is a common concern of some companies entering the Chinese market. These concerns are often strongest where a foreign company has established a joint venture or licensing relationship with a Chinese partner”; for a discussion of a case decided in China of two former employees of a joint venture which allegedly misappropriated trade secrets; see <http://www.iprights.com/cms/templates/Art.s.aspx?Art.id=245&zoneid=2> [Accessed December 16, 2008]; see also <http://www.detnews.com/2005/autosinsider/0502/03/A01-77560.htm> [Accessed December 16, 2008].

thus be problematic and may also affect the decision of a foreign company to enter into a local market.⁵³ In such a case, it will be important to try to minimise the risk of any “IP leakage” by proper contractual wording and by adopting efficient dispute resolution methods (to the extent possible) in addition to “factual protection strategies” to be put in place.⁵⁴

2.2.2.3 Technology import/export regulations

Thirdly, a risk may also result from restrictive technology import and export regulations which may prevent or hinder the cross-border flow of intellectual assets (i.e. trade secrets).⁵⁵ For instance, the former Chinese technology import and export regulations provided that the Chinese entity (as importer) to which foreign confidential information were disclosed in the course of the technology import agreement could freely use the confidential information after the termination of such contract. In addition, it was basically not possible to impose a post termination obligation of confidentiality upon the Chinese importer without government approval.⁵⁶ New technology import and export regulations (which had to comply with the WTO-mandated non-discrimination principle) have been adopted (and are in force since January 1, 2002)⁵⁷ which however still contain relatively unfavourable rules for the foreign technology importer.⁵⁸

Similarly, barriers to the export of technology may also hamper the free flow of know-how and trade secrets and its reuse beyond the national borders of the country in which such know-how has been created (for instance in a R & D institution located in a certain jurisdiction).⁵⁹ From a Swiss perspective, the export of know-how and trade

⁵³ For Japan, see Peter Rodatz, “Lizenzverträge mit japanischen Gesellschaften” [1998] *Zeitschrift für japanisches Recht* 74.

⁵⁴ See Marcus Matthias Keupp, Angela Beckenbauer, Oliver Gassmann, “Safeguarding intellectual property rights in emerging economies: The case of factual protection strategies in China” (2007), summary available at <http://www.alexandria.unisg.ch/Publikationen/36551> [Accessed December 16, 2008], to be published in *Management International Review* (2009).

⁵⁵ On the administrative control of licence and technology transfer agreements under a comparative approach (including China and Japan), see Bernard Dutoit and Peter Mock, *Le contrôle administratif des contrats de licence et de transfert de technologie* (1993).

⁵⁶ See Thomas Pattloch, “Die Neuordnung des internationalen Technologietransfers in der VR China” [2003] G.R.U.R. Int. 695; see also Stephanie Tetz, “Technology Transfer in the People’s Republic of China—A Foreign Investor’s Perspective” in Christopher Heath and Kung-Chung Liu (eds), *Legal rules of technology transfer in Asia* (2002), p.71, and Nils Heide, “Harmonisierungsaufgaben im internationalen Technologietransfer—zum Schutz von Herstellungstechnologien in der Volksrepublik China” [2008] G.R.U.R. Int. 13, 15; on technology contracts under Chinese law in general, see Xiaoguang Shan, “Technologietransferverträge im neuen chinesischen Vertragsgesetz” [2000] G.R.U.R. Int. 506.

⁵⁷ They are available online at <http://tradeinservices.mofcom.gov.cn/en/local/2007-11-13/9733.shtml> [Accessed December 16, 2008].

⁵⁸ This applies in particular to the regime of liability of the foreign technology licensor in case of violation of third party rights, see Pattloch, “Die Neuordnung des internationalen Technologietransfers in der VR China” [2003] G.R.U.R. Int. 695, 703, and Tetz, “Technology Transfer in the People’s Republic of China” in *Legal rules of technology transfer in Asia* (2002), pp.67–68; the process of negotiating technology import licence agreements can be facilitated by the use of standard contracts, such as the Sino-German Model Contract for Know How- and Patent License (<http://tfs.mofcom.gov.cn/table/hetong.doc> [Accessed January 16, 2009]) which is presented and discussed by Pattloch, “Die Neuordnung des internationalen Technologietransfers in der VR China” [2003] G.R.U.R. Int. 695, 705 *et seq.*

⁵⁹ See, for instance, the IPR EUCCC Position Paper (2007/2008), noting that some leading European companies have gone one step further than transferring technology and have positively responded to

secrets is not subject to stringent export control regulations except with respect to the export of so-called dual use technologies (i.e. technologies which can be used for both civilian and military purposes)⁶⁰ and of military materials.⁶¹ An unauthorised export is subject to criminal sanctions, but it is uncertain whether a technology export agreement entered into in violation of such export control regulation would automatically be held null and void under Swiss civil law. However, if it were held null and void, it would still remain quite difficult to sue in a foreign jurisdiction the foreign entity having illegally exported and now benefiting from the relevant technology because the Swiss export control regulation would not be applicable in such jurisdiction (except if it were held as “loi de police” in such jurisdiction). In addition, if the technology export agreement is governed by foreign law and/or is subject to a foreign state/arbitral jurisdiction, the violation of the Swiss export control regulation may not affect the validity of the agreement (even if criminal sanctions would be imposed on the beneficiaries of such illicit export).

2.2.3 Hurdles resulting from private international law

2.2.3.1 Dispute resolution before state courts

2.2.3.1.1 Introduction

It is quite frequent that disputes arising from the violation of trade secrets are litigated in different jurisdictions and countries in parallel proceedings before state courts and/or arbitration panels⁶² which raise complex issues of private international

the invitation made by China to invest into R & D centres and develop new technologies in China. This implies that such technologies should equally benefit both sides, Chinese and foreign. However, the burdensome formalities applying to the exportation of technologies that were put in place at a time when their main purpose was to protect the illegal exportation of Chinese technologies, are now inadequate, and if not drastically revised, will eventually constitute an obstacle to the future development of such centres.

⁶⁰ See the Federal Ordinance concerning the Export, Import, and Transit of Dual-Use Goods and Specific Military Goods of June 25, 1997, SC 946.202.1 (http://www.admin.ch/ch/f/rs/c946_202_1.html [Accessed December 16, 2008]) available in (an unofficial) English translation at <http://www.sipri.org/contents/expcon/GKV.html> [Accessed December 16, 2008].

⁶¹ Swiss Act on Military Materials of December 13, 1996, SC 514.51art.20(1) (http://www.admin.ch/ch/f/rs/514_51/a20.html [Accessed December 16, 2008]) submits to authorisation the conclusion of a contract relating to the export of intangible assets including know how which are essential for the development, manufacture or exploitation of military materials, whereby some exceptions are allowed under art.20(2) (one of which is when the intangible assets are to be used for fundamental research purposes); a matter is discussed regarding the unauthorised export of information relating to the development of nuclear weapons by three Swiss citizens to Libya; see David Albright, “Swiss Smugglers Had Advanced Nuclear Weapons Designs” (June 2008), at http://www.isis-online.org/publications/expcontrol/Advanced_Bomb_16June2008.pdf [Accessed December 16, 2008].

⁶² See for example the recent dispute between Rhodia and Invista Sàrl relating the an alleged misappropriation of trade secrets used for a plant in China which lead to parallel litigation in the US and in France (before an arbitration panel), the dispute was terminated before the US courts in October 2007 (see *Invista North America Sàrl v Rhodia Polyamide Intermediates S.A.S* C.A. Fed., 2007, 253 Fed. Appx. 18, 2007 WL 3193995 (C.A. Fed.)); on this dispute, see David Yates, “Trade secrets, Chinese plant have chemical companies in court in Orange” (Paris, October 11, 2007), <http://www.setexasrecord.com/news/202487-trade-secrets-have-chemical-companies-in-court-in-orange-paris>; see also the dispute between

law.⁶³ This can be illustrated by taking the hypothetical case of a former employee of a China-based multinational group (headquartered in Shanghai) who has been working in an R & D affiliate company of the group located in Japan and is presently working and living in Switzerland for a Swiss competitor of the Chinese group. The Chinese group now considers that the ex-employee has allegedly misappropriated trade secrets and wants to initiate legal action against him. Assuming that the employment agreement entered into between the employee and the Chinese group did not contain any choice of forum (but contained a choice of law clause for Japanese law), it will be required to assess which court shall have jurisdiction and which law shall govern in such a case.⁶⁴

2.2.3.1.2 Perspectives under Swiss private international law

With respect first to the issue of jurisdiction, a forum would clearly exist at the place of domicile of the former employee⁶⁵ which would lead to the application of the rules of Swiss private international law (Swiss Act on Private International Law of December 18, 1987, SAPIL, SC 291) given that a forum would exist before a Swiss court. Swiss courts may also have jurisdiction on another ground if damage has occurred in Switzerland pursuant to art.129(2) SAPIL. The same would also result by application of art.5(3) of the Lugano Convention which provides for the jurisdiction of the court “for the place where the harmful event occurred”, even though the localisation of such a place for cases of misappropriation of trade secrets can prove difficult in certain circumstances (in particular in internet-related cases).⁶⁶

Regarding the governing law, claims based on unfair competition are generally governed by the law of the state the market on which the unfair act has its effect (art.136(1) SAPIL) which would designate Swiss unfair competition law (given the Swiss market is where the unfair competition acts has its effect⁶⁷). However, pursuant to art.136(2) SAPIL, where the unfair act affects exclusively the corporate interests of a competitor, the law of the state where the competitor has its corporate seat shall govern. By considering that a case of misappropriation of trade secrets affects exclusively the corporate interests of the competitor who is the victim of such misappropriation, this would mean that Chinese unfair competition law would apply in the hypothetical case at hand.

Miyakoshi Machine Tools Co, Ltd, a Japanese company manufacturing copper foil, and a US company Gould, Inc, which led to parallel litigation in the US and in Japan; see Tokyo District Court, judgment, May 30, 1989, *Hanrei Jihō*, Vol.1348, at 91.

⁶³ On the issue of choice of law and choice of court in international technology transfer agreements, see in general the still highly relevant report of Stanislas Soltysinski, “Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions” (1986) 196 *Recueil des cours de la Haye* 226.

⁶⁴ The focus being here on civil issues and not on criminal issues.

⁶⁵ This basic principle is confirmed in particular in art.2 of the Lugano Convention on jurisdiction and the enforcement of judgments in civil and commercial matters of September 16, 1988.

⁶⁶ See Christopher Wadlow, “Bugs, Spies and Paparazzi: Jurisdiction over Actions for Breach of Confidence in Private International Law” [2008] E.I.P.R. 269, it being noted that these rules are comparable to the ones existing in China and in Japan (based on the reports of Mrs Li He and of Prof. Tatsuhiro Ueno prepared in the course of the comparative research paper which lead to this article.).

⁶⁷ For an in-depth analysis of the Swiss private international law aspects of unfair competition acts, see François-Jérôme Danthe, *Le droit international privé suisse de la concurrence déloyale* (1998).

But, if the unfair act is committed against a victim with whom the author of the unfair act had a legal relationship (i.e. a contract), the law governing the contract shall also govern the unfair act. In this case, given that the employee had a contract relationship with the Japanese affiliated company of the Chinese group, this would mean that Japanese unfair competition law would govern and would have to be applied by the Swiss judge because the contract would also be governed by Japanese law (art.136(3) SAPIL/art.133(3) SAPIL).

Irrespective of these provisions which may lead to the application of various national laws, the parties can still validly decide to submit the dispute to the substantive law of the forum after the damaging event has occurred (i.e. for a dispute before a Swiss court, to Swiss unfair competition law) under art.132 SAPIL. This means that for the sake of efficiency (i.e. the court would apply its own substantive law) the parties can choose the substantive law applicable to their dispute.

As it results from this hypothetical example, different governing laws can be held applicable by application of the regime provided under Swiss private international law, which may lead to conflicting solutions and thus create legal uncertainty.

A harmonisation of the substantive rules applicable to the misappropriation of trade secrets or at least of the rules of private international law would thus be quite helpful.⁶⁸ It can be noted in this context that international efforts for harmonising aspects of transfer of technology which were led under the leadership of UNCTAD⁶⁹ which also (at least partly) relate to the definition of the scope and limits of the protection of trade secrets have unfortunately not been successful so far.

2.2.3.1.3 Perspectives under European private international law

The need for harmonisation of the rules of private international law within Europe is also confirmed by the comparison which can be made between the Swiss rules of private international law (which have just been described) and the newly created regime adopted within the European Union resulting from Regulation 864/2007 of the European Parliament and of the Council of July 11, 2007 on the law applicable to non-contractual obligations (Rome II) which entered into force on January 11, 2009. This Regulation—if it were to apply in the hypothetical case described above—would indeed not lead to an identical result as the one resulting from Swiss private international law⁷⁰. Article 4(1) of the Regulation provides as a basic rule that:

⁶⁸ See, with respect to international technology transfer agreements, Soltysinski, "Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions" (1986) 196 *Recueil des cours de la Haye* 226, 254, discussing the "idea of a universal code of conduct" aiming at the elimination or the limitation of the uncertainties resulting from choice of forum clauses in international technology transfer agreements by "resorting to unification of choice-of-law and public policy rules affecting international transfer of technology".

⁶⁹ As codified in the Draft International Code of Conduct on the Transfer of Technology (1985). <http://www.unctad.org/en/docs/psiteipcm5.en.pdf> [Accessed December 16, 2008]; on these efforts, see Wolfgang Fikentscher, *The Draft International Code of Conduct on the Transfer of Technology* (Studies in Industrial Property and Copyright Law, Vol.4, 1980).

⁷⁰ This is why the analysis is focusing on the issue of governing law, because the issue of jurisdiction does not reveal major differences between the Swiss (under the SAPIL) and the European rules (under the Lugano Convention); for a critical presentation of the Regulation from the perspective of trade

“Unless otherwise provided for in this Regulation, the law applicable to a non-contractual obligation arising out of a tort/delict shall be the law of the country in which the damage occurs irrespective of the country in which the event giving rise to the damage occurred and irrespective of the country or countries in which the indirect consequences of that event occur.”

Article 6 (which is entitled “unfair competition and acts restricting free competition”) provides that “1. The law applicable to a non-contractual obligation arising out of an act of unfair competition shall be the law of the country where competitive relations or the collective interests of consumers are, or are likely to be, affected” and under para.2 that “Where an act of unfair competition affects exclusively the interests of a specific competitor, Art. 4 shall apply”.

On this basis, it could be considered—assuming that Swiss courts were to apply Regulation 864/2007—that Chinese unfair competition law would have to apply (in addition to other national laws including Swiss law)⁷¹ given that it could be considered that the damage occurs in China (which is where the China group is based) by application of arts 4(1) and 6(2) of the Regulation.⁷² However, art.4(3) provides for an “escape clause”⁷³ to the general rule of art.4(1) by stating that:

“Where it is clear from all the circumstances of the case that the tort/delict is manifestly more closely connected with a country other than that indicated in paragraphs 1 or 2, the law of that other country shall apply. A manifestly closer connection with another country might be based in particular on a pre-existing relationship between the parties, such as a contract, that is closely connected with the tort/delict in question.”

On this basis, it may be considered in the hypothetical example described above that Japanese law could apply as the law with which the dispute is “more closely connected” (because of the underlying employment contract governed by Japanese law and because the ex-employee worked in the R & D entity in Japan where the alleged misappropriation of trade secrets took place). It must also be mentioned that art.6(4) provides that “[t]he law applicable under this article may not be derogated from by an agreement pursuant to Art. 14”, which means that the parties cannot freely choose the law which shall govern the dispute even after the arising of

secrets, see Christopher Wadlow, “Trade Secrets and the Rome II Regulation on the Law Applicable to Non-Contractual Obligations,” [2008] E.I.P.R. 309.

⁷¹ However, as noted by Wadlow, “Trade Secrets and the Rome II Regulation on the Law Applicable to Non-Contractual Obligations” [2008] E.I.P.R. 309, 313, the place where damage occurs is quite difficult to locate in an international trade secrets misappropriation case (“To say, in a trade secret case, that damage occurred in a particular place for the purposes of para.1 is not to take account of any observable physical or economic phenomenon, but to apply essentially arbitrary or legalistic concepts which have had to be invented to deal with the case”); this author concludes that the rule of art.4(1) leads to the application of multiple national laws and thus have a “centrifugal effect” (Wadlow).

⁷² Article 4(2) is applicable to trade secrets misappropriation cases; see Wadlow, “Trade Secrets and the Rome II Regulation on the Law Applicable to Non-Contractual Obligations” [2008] E.I.P.R. 309, 311.

⁷³ See Recital 18 of the Regulation (“Art. 4(3) should be understood as an ‘escape clause’ from Art. 4(1) and (2), where it is clear from all the circumstances of the case that the tort/delict is manifestly more closely connected with another country”).

the damage at issue (i.e. after the alleged misappropriation of the trade secrets has occurred).⁷⁴ This prohibition of contractual choice stands in contrast to the more flexible approach adopted under Swiss private international law (which precisely allows a choice of law for the law of the forum which can simplify the proceedings: art.132 SAPIL).

Another difference results from the fact that the rule adopted under Swiss private international law providing that the law applicable to the contract is also applicable to an unfair act committed by one contracting party against the other (see art.136(3) SAPIL) is more categorical in its wording (i.e. if the conditions of application are met, this provision applies and mandatorily defines the governing law). By opposition, the law designated by art.4(3) of the Regulation is not mandatory and thus remains subject to some flexibility (and uncertainty) in its application by the courts,⁷⁵ even though this provision appears to offer the best and most practicable solution (because it leads to the application of a unique law by contrast to art.4(1)).⁷⁶

It can finally be noted that art.8 of the Regulation provides for a specific rule applicable to the infringement of intellectual property rights. Under art.8(1), "the law applicable to a non-contractual obligation arising from an infringement of an intellectual property right shall be the law of the country for which protection is claimed". However, it is unlikely that this provision applies to trade secrets to the extent that these intellectual assets may not qualify as "intellectual property rights" under EU law and are rather to be considered as falling under art.6 (viewed as a *lex specialis*).⁷⁷ Assuming hypothetically that art.8 were to apply to trade secrets, its application would then also differ from the solution under Swiss private international law because the Regulation prohibits any choice of law (art.8(3)), while the SAPIL expressly permits such choice (though it is limited to the law of the forum, see art.132 SAPIL).

⁷⁴ For a discussion, see Wadlow, "Trade Secrets and the Rome II Regulation on the Law Applicable to Non-Contractual Obligations" [2008] E.I.P.R. 309, 312.

⁷⁵ See Wadlow, "Trade Secrets and the Rome II Regulation on the Law Applicable to Non-Contractual Obligations" [2008] E.I.P.R. 309, 316–317, citing the Explanatory Memorandum of the Commission, COM(2003) 427 final, at 12:

"Since this clause generates a degree of unforeseeability as to the law that will be applicable, it must remain exceptional. . . To make clear that the exception clause really must be exceptional, paragraph 3 requires the obligation to be '*manifestly more closely connected*' with another country. Paragraph 3 then allows the court to be guided, for example, by the fact that the parties are already bound by a pre-existing relationship . . . But the law applicable to the pre-existing relationship does not apply automatically, and the court enjoys a degree of discretion to decide whether there is a significant connection between the non-contractual obligations and the law applicable to the pre-existing relationship.

⁷⁶ See Wadlow, "Trade Secrets and the Rome II Regulation on the Law Applicable to Non-Contractual Obligations" [2008] E.I.P.R. 309, 316–317 (pleading for a broad application of art.4(3) which is viewed as "the preferred solution").

⁷⁷ Recital 26 of the Regulation provides in this respect that "[f]or the purposes of this Regulation, the term 'intellectual property rights' should be interpreted as meaning, for instance, copyright, related rights, the *sui generis* right for the protection of databases and industrial property rights" without referring to trade secrets; see Wadlow, "Trade Secrets and the Rome II Regulation on the Law Applicable to Non-Contractual Obligations" [2008] E.I.P.R. 309, 312 (who states that "[a]ssuming that the protection of trade secrets falls within the autonomous meaning of 'unfair competition', then the *lex specialis* principle means that it cannot simultaneously be governed by Art. 8").

2.2.3.1.4 Perspectives under the Hague Convention on Choice of Court Agreements

This comparison between the rules of Swiss private international law and of European private international law confirms the complexity and relative unpredictability of defining the governing law in a cross-border dispute relating to the misappropriation of trade secrets which in turn depends at least indirectly on the court which shall have jurisdiction to decide on this matter (whereby the issue of jurisdiction is also delicate in itself).⁷⁸

On this basis, one potential solution would be to promote the jurisdiction of one single court for settling all disputes which would result from a binding and valid choice of forum clause.⁷⁹ In this respect, it appears interesting to analyse the issue under the regime created under the recent Hague Convention on Choice of Court Agreements of June 30, 2005 (even though it is not in force yet).⁸⁰ On this basis, the first issue is whether disputes relating to an alleged misappropriation of trade secrets can be validly subject to a choice of forum clause under the Hague Convention.

Pursuant to its art.2(2)(n), the Convention does not apply to “the validity of intellectual property rights other than copyright and related rights”. Further to art.2(2)(o), it does not apply either to “infringement of intellectual property rights other than copyright and related rights, except where infringement proceedings are brought for breach of a contract between the parties relating to such rights, or could have been brought for breach of that contract”.

However, pursuant to art.2(3):

“Notwithstanding paragraph 2, proceedings are not excluded from the scope of this Convention where a matter excluded under that paragraph arises merely as a preliminary question and not as an object of the proceedings. In particular, the mere fact that a matter excluded under paragraph 2 arises by way of defence does not exclude proceedings from the Convention, if that matter is not an object of the proceedings.”

In this respect, it can first be wondered whether disputes about trade secrets would fall within the scope of art.2(2)(n) so that disputes about the validity of trade secrets could not be the object of a valid choice of forum clause under the Hague Convention.⁸¹

⁷⁸ On the relationship between jurisdiction and choice of law in Europe, see Zheng Tang, “The Interrelationship of European Jurisdiction and Choice of Law in Contract” (2008) 4(1) *Journal of Private International Law* 35, available at: http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1121844 [Accessed January 16, 2009].

⁷⁹ Similar efforts have been made to address the issues of jurisdiction and governing law in international technology transfer transactions; see Guillermo Cabanellas, “Applicable Law under International Transfer of Technology Regulations” (1984) 15 *International Review of Intellectual Property and Competition Law* (I.I.C.) 39; see also Guillermo Cabanellas, “Jurisdiction Rules under International Transfer of Technology Regulations” (1985) 16 I.I.C. 19.

⁸⁰ It being noted that some consider that the Convention lacks chances of being successfully implemented; see William J. Woodward, “Saving the Hague Choice of Court Convention” (2008) 29 *University of Pennsylvania Journal of International Law*, available at SSRN: <http://ssrn.com/abstract=1021043> [Accessed December 16, 2008].

⁸¹ The Explanatory Report on the 2005 Hague Choice of Court Agreements Convention authored by Trevor Hartley and Masato Dogauchi (2007), available at <http://www.hcch.net/upload/expl37e.pdf> [Accessed December 16, 2008], does not specifically refer to trade secrets.

Assuming that it would be the case, if the issue of the validity of the protection of trade secrets is raised as a defence—the classical defence being to claim that the alleged trade secrets at issue are not protected because they would relate to information which is in the public domain—then a choice of forum clause would still be valid by application of art.2(3) of the Convention (i.e. in such case the issue of the validity of the protection of trade secrets would be raised as a defence and would not constitute the “object of the proceedings”). It can similarly be noted that even though “anti-trust (competition) matters” are excluded from the scope of the Hague Convention (pursuant to art.2(2)(h)), an antitrust defence to a trade secret misappropriation claim (for instance in a software decompilation case relating to interoperable products which would be regulated in a software licence contract) would not affect the jurisdiction of the court under the Hague Convention as a result of art.(2)(3).

Regarding the exclusion of art.2(2)(o), it could be argued that a claim of misappropriation of trade secrets could be the object of a choice of forum clause if such claim also constitutes a breach of contract claim, i.e. if the misappropriation of the trade secrets is committed in the course of a contractual relationship such as a license agreement or a joint-venture agreement⁸² (by reference to the criterion providing that “where infringement proceedings are brought for breach of a contract between the parties relating to such rights, or could have been brought for breach of that contract”).⁸³ On this basis, it can be considered that disputes about a misappropriation of trade secrets can be the object of choice of court agreements under the Hague Convention if they constitute or could have constituted a contractual claim.

2.2.3.1.5 *The law governing international trade secrets agreements (i.e. know-how agreements)*

The issue of the governing law for know-how agreements also raises potential difficulties in the case where the contracting parties would not have agreed on the law which shall govern their contractual relationships. This can be particularly evidenced by referring to the new European regulatory framework which results from the recent adoption of Regulation 593/2008 of the European Parliament and of the Council of June 17, 2008 on the law applicable to contractual obligations (Rome I),⁸⁴ it being noted that similar difficulties were faced under the pre-existing regime under the European Convention on the law applicable to contractual obligations (which is still in force at present).⁸⁵ In

⁸² Hartley and Dogauchi, Explanatory Report on the 2005 Hague Choice of Court Agreements Convention (2007), para.76 at p.35, confirm that “[t]he Convention applies to contracts dealing with intellectual property rights, such as licensing agreements, distribution agreements, joint venture agreements, agency agreements and agreements for the development of an intellectual property right”; by opposition, a misappropriation claim raised in connection with a breach of an employment agreement would not fall within the scope of the Convention because employment agreement are specifically excluded under art.2(1)(b).

⁸³ For a detailed analysis of these provisions from an IP perspective, see Stefan Luginbühl and Heike Wollgast, “Das neue Haager Übereinkommen über Gerichtsstandsvereinbarungen: Aussichten für das geistige Eigentum” [2006] G.R.U.R. Int. 208.

⁸⁴ Available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:177:0006:01:EN:HTML> [Accessed December 17, 2008], Regulation 593/2008 will enter into force on December 17, 2009 (art.29).

⁸⁵ EU Convention on the law applicable to contractual obligations of June 19, 1980 (80/934), available at http://www.rome-convention.org/instruments/i_conv_orig_en.htm [Accessed December 17, 2008].

the course of the adoption process of this regulation, a draft version (i.e. the Proposal for a regulation on the law applicable to contractual obligations which was presented by the European Commission in December 2005⁸⁶) contained a provision (art.4(1)(f)) under which “a contract relating to intellectual or industrial property rights shall be governed by the law of the country in which the person who transfers or assigns the rights has his habitual residence”. If implemented, the application of this provision would have meant that international trade secrets agreements (such as international technology transfer agreements) under which one party (the licensor) would have disclosed its trade secrets to the other party (the licensee) would have been governed, subject to any choice of law made by the contracting parties, to the contract law of the state where the licensor would have been located. This solution was however criticised by a group of experts because it was considered that in some situations, in particular when the licensee has an obligation to actively exploit the licensed intellectual property rights, the characteristic performance should be deemed to be accomplished by the licensee and not be the licensor, so that the law of the licensee shall apply.⁸⁷ As a result, a counterproposal was formulated by the group of experts which had the following wording:

“(f) a contract having as its main object the transfer or license of an intellectual or industrial property right shall be presumed to be most closely connected with the law of the country in which the person who transfers or licenses the rights has his habitual residence, unless the transferee or licensee has accepted a duty to exploit the rights.”⁸⁸

However, the initial proposal (i.e. art.4(1)(f) as cited above) was abandoned and the counterproposal was not accepted so that the Regulation (as ultimately adopted) does not contain any specific choice of law rule relating to intellectual property agreements. This consequently means that the general choice of law rules apply to intellectual property agreements (including to agreements relating to trade secrets) so that “the contract shall be governed by the law of the country where the party required to effect the characteristic performance of the contract has his habitual residence” (art.4(2)). In the case of trade secrets agreements, it seems delicate to assess in a general manner which of the contracting parties (i.e. licensor or licensee) effects the characteristic performance of such contract. It may indeed depend from the specific factors of the case, such as whether the licensee has an obligation to exploit the trade secrets and whether the licensee would have other obligations (for instance under local technology import regulations) so that the licensee could be considered as the party effecting the characteristic

⁸⁶ Available at http://eur-lex.europa.eu/LexUriServ/site/en/com/2005/com2005_0650en01.pdf [Accessed December 17, 2008].

⁸⁷ This point was raised by the European Max-Planck Group for Conflict of Laws in Intellectual Property (CLIP, see <http://www.cl-ip.eu/>) in their Comments on the European Commission’s Proposal for a Regulation on the Law Applicable to Contractual Obligations (Rome I) of December 15, 2005 and the European Parliament Committee on Legal Affairs’ Draft Report on the Proposal of August 22, 2006 (published in [2006] I.I.C. 471), available at <http://www.ip.mpg.de/shared/data/pdf/clip-rome-i-comment-04-01-2006.pdf> [Accessed December 17, 2008].

⁸⁸ See the last paragraph of the document available at <http://www.ip.mpg.de/shared/data/pdf/clip-rome-i-comment-04-01-2006.pdf> [Accessed December 17, 2008]

performance,⁸⁹ even though this issue is not undisputed in the legal literature so that it remains subject to legal uncertainty.⁹⁰ The Regulation further contains an escape clause which provides that if “it is clear from all the circumstances of the case that the contract is manifestly more closely connected with a country other than that [for which specific choice of law rules apply such as the rule of the characteristic performance mentioned above], the law of that other country shall apply” (art.4(3)). Finally, the Regulation also reserves the application of “overriding mandatory provisions” (art.9) which can apply irrespective of the law which shall otherwise govern the agreement.⁹¹ These provisions add more uncertainty to the determination of the governing law which shall apply to intellectual property agreements under the regime of the Regulation. As a result, it appears that the European choice of law rules relating to the definition of the law governing international know-how agreements (in the absence of choice of law made by the contracting parties) are complex and do not lead to predictable results.⁹²

By comparison, Swiss private international law, which is said to reflect the fact that Switzerland is a country which tends to export technologies including trade secrets, provides that the law of the country of the assignor/licensor of the intellectual property rights (in particular of trade secrets) shall apply in the absence of a contractual choice of law (art.122(1) SAPIL), which corresponds, as seen above, to the solution which was initially proposed but later abandoned under the European Regulation. From this perspective, in the absence of choice of law, Swiss law would apply to an international agreement by which trade secrets would be licensed/disclosed by a Swiss entity to a foreign entity. By contrast, other national private international law rules of countries which generally import technologies and trade secrets may lead to the application of the laws of the country in which the licensee is located.⁹³

⁸⁹ See Jürgen F. Hoppe, *Lizenz- und Know-how-Verträge im internationalen Privatrecht* (1994), p.202; Herbert Stumpf, “The Know-How Contract in Germany” in Herbert Stumpf (ed.), *The Know-How Contract in Germany, Japan and the United States* (1984), p.70.

⁹⁰ See Wim Kreytenberg, *Die individuelle Schwerpunktbestimmung internationaler Schuldverträge nach der Ausweichklausel des Artikel 4 Absatz 5 Satz 2 EVÜ* (2007), pp.210–211.

⁹¹ Article 9 provides :

- “1. Overriding mandatory provisions are provisions the respect for which is regarded as crucial by a country for safeguarding its public interests, such as its political, social or economic organisation, to such an extent that they are applicable to any situation falling within their scope, irrespective of the law otherwise applicable to the contract under this Regulation.
2. Nothing in this Regulation shall restrict the application of the overriding mandatory provisions of the law of the forum.
3. Effect may be given to the overriding mandatory provisions of the law of the country where the obligations arising out of the contract have to be or have been performed, in so far as those overriding mandatory provisions render the performance of the contract unlawful. In considering whether to give effect to those provisions, regard shall be had to their nature and purpose and to the consequences of their application or non-application.”

⁹² See Stumpf, “The Know-How Contract in Germany” in *The Know-How Contract in Germany, Japan and the United States* (1984), p.70 (noting that “it appears that there is considerable uncertainty as to the question of which legal system is to be applied to a know-how contract, for it is also quite possible for courts in different countries to reach different conclusions”).

⁹³ For such an approach, see Herbert Stumpf, *Der Know-How Vertrag* (1977), pp.155 *et seq.*; see also Soltysinski, “Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions” (1986) 196 *Recueil des cours de la Haye* 226, 325; this is the case under Chinese private international law,

In any case, in spite of a choice of law which would be made in the relevant trade secrets related agreement, other regulatory provisions may apply, such as (for instance) national regulations relating to the import and export of technologies which are generally viewed as being part of the *ordre public* of the country at issue (as expressly reserved in art.14 of the Regulation which relates to “overriding mandatory rules”),⁹⁴ the difficulty being precisely to assess to what extent national rules are to be treated as “overriding mandatory rules” in the context of international know-how agreements.

From this perspective, the application of a given national contract law to an international trade secrets agreement (either resulting from a choice of law made by the parties or from the application of the default rule) would not fully exclude the application of foreign law to certain issues relating to the agreement. It should also be emphasised that a contractual choice of law will not necessarily govern all intellectual property issues which would remain subject to the local laws (such as the issue of the ownership or of the validity of the relevant intellectual property rights as a result of the application of the principle of territoriality).⁹⁵

2.2.3.1.6 Enforcement of foreign judgments

Finally, the issue of the enforcement of foreign judgments in another country may be problematic if issues relating to the public policy of the country in which the enforcement of the foreign decision is sought are at stake. Public policy constitutes indeed a traditional ground for not enforcing a foreign decision.⁹⁶ This issue might potentially arise in trade secrets misappropriation cases. It can indeed be conceivable that under the law of the country of enforcement the claim for the alleged misappropriation of trade secrets would be baseless and would even violate public policy of such country because it would potentially overly extend the scope of protection of trade secrets (in particular

see Tetz, “Technology Transfer in the People’s Republic of China” in *Legal rules of technology transfer in Asia* (2002), p.74 (stating that Chinese law would apply to a technology import contract containing no choice of law clause); this licensee friendly approach was also adopted in a case *Toa Kogyo Co v Multi Product International Co* decided by the Tokyo District Court in 1977, in which the court held in view of the specific circumstances of the case that the contract was to be governed by Japanese law; see Yohtaro Nuno and Ryuichiro Sengen, “The Know-How Contract in Japan” in *The Know-How Contract in Germany, Japan and the United States*, (1984), p.219.

⁹⁴ See Soltysinski, “Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions” (1986) 196 *Recueil des cours de la Haye* 226, 273; see also Benjamin Bai, Anthony Chen and Marcus Woo, “Traps for the Unwary”, *Managing Intellectual Property*, Supplement, China IP Focus 2008 (April 1, 2008) (<http://www.managingip.com/Article.aspx?ArticleID=1915323> [Accessed January 16, 2009]) noting that

“when a foreign company transfers technology to China, the parties to the transfer agreement can generally choose the governing law, including foreign law, for the agreement. This freedom to choose has given many foreign companies the false impression that they don’t need to worry about the restrictions of Chinese law if they have selected a foreign law to govern the agreement. In reality, if the agreement is to be enforced in China, certain provisions of Chinese law are mandatory. A foreign licensor should carefully structure its technology transfer agreement to make sure that the agreement complies with these mandatory provisions.”

⁹⁵ See Soltysinski, “Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions” (1986) 196 *Recueil des cours de la Haye* 226, 335.

⁹⁶ See, e.g., art.27(1) of the Lugano Convention on jurisdiction and the enforcement of judgments in civil and commercial matters of September 16, 1988.

in a labour relationship in which—according to the approach adopted by the Swiss Supreme Court⁹⁷—a balance must be struck between the interests of the employer to be protected against misuse of its corporate secrets and those of the employee to change job). This may consequently be admitted if the foreign court has decided to grant injunctive relief and/or damages for misappropriation of trade secrets even though the trade secrets would not be considered as protectable at all or even though the protection would be considered grossly excessive in the country where recognition of the judgment is sought. By analogy, it can be noted that the Swiss Supreme Court struck down an arbitration award on the ground that the arbitration panel had unduly prohibited (in its award) the defendant from using the technological information at issue (which allegedly constituted protected trade secrets) without any limitation in time even though no proof was established that such information was still secret.⁹⁸ It may be wondered whether a foreign judgment finding a misappropriation of trade secrets (even though no proof of secrecy would have been established in such foreign judgment) would be enforceable in Switzerland (bearing in mind that the secrecy is a required condition of protection under art.39 TRIPS).

As a result of these difficulties of private international law, which hamper the flow of intangible assets (and particularly of trade secrets and know-how) across borders, the view has been expressed that alternative dispute resolution methods (and particularly arbitration) should be used and encouraged given that they would provide “one neutral forum” and may avoid “the rendering of conflicting awards and judgments”,⁹⁹ provided that certain conditions are met.¹⁰⁰ On this basis, it appears important to address the issue of the resolution of trade secrets disputes by way of arbitration.

2.2.3.2 Resolution of trade secrets disputes by arbitration

Some of the well-known advantages of arbitration proceedings by comparison to state courts proceedings have a particular relevance for trade secrets disputes to the extent that arbitration proceedings are supposed to ensure a high level of confidentiality (which is obviously quite critical in trade secrets disputes) as well as a particular expertise of the arbitrators appointed for solving the dispute. The recourse to arbitration however first raises the issue of arbitrability of trade secrets disputes (see below 2.2.3.2.1). It also requires addressing the potential regulatory constraints affecting the protection of the confidentiality of arbitration proceedings (see below 2.2.3.2.2).

2.2.3.2.1 Arbitrability of trade secrets disputes

The arbitrability of trade secrets disputes requires that such disputes shall be arbitrable under the relevant law (i.e. in general the law of the seat of the arbitration).¹⁰¹ Because of Switzerland’s well-established expertise and reputation as a seat for international

⁹⁷ See Decision of June 21, 2007; ref. 4C.69/2007.

⁹⁸ See decision of the Swiss Supreme Court ATF 102 Ia 493 at 507–508.

⁹⁹ See Soltysinski, “Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions” (1986) 196 *Recueil des cours de la Haye* 226, 355.

¹⁰⁰ For a discussion of these conditions, see Soltysinski, “Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions” (1986) 196 *Recueil des cours de la Haye* 226, 355.

¹⁰¹ See arts 176 and 177 SAPIL for Switzerland.

commercial arbitration proceedings,¹⁰² it is not a surprise to note that Switzerland is an arbitration friendly country where disputes about the validity and infringement of intellectual property rights are generally held as arbitrable because they are considered as a dispute about a financial interest under art.177(1) SAPIL.¹⁰³ The submission of a party to arbitration requires the consent to arbitrate. The arbitrability thus requires that the trade secrets dispute falls within the scope of the arbitration clause which in turn supposes a sufficiently broad wording of such clause.¹⁰⁴

In a decision of the Swiss Supreme Court rendered as an appeal against an arbitral award in a dispute between a Japanese and a Swiss company arising from a patent and know-how licence agreement,¹⁰⁵ unfair competition claims and remedies for misappropriation of trade secrets were pronounced by the arbitrator and were therefore held to fall within the scope of the arbitration clause which had the following wording:

“Any controversy or claim, arising out of and relating to this agreement or breach thereof shall be settled by arbitration by the International Chamber of Commerce in Geneva, Switzerland.”

¹⁰² As evidenced (among others) by the recent adoption (2004) of the Swiss Rules of International Arbitration: see <https://www.sccam.org/sa/en/rules.php> [Accessed December 17, 2008] and by the arbitration friendly regulation adopted in the SAPIL (arts 176–194).

¹⁰³ On this issue, see Robert Briner, “The Arbitrability of Intellectual Property Disputes with Particular Emphasis on the Situation in Switzerland” (Worldwide Forum on the Arbitration of Intellectual Property Disputes, WIPO, 1994), available at <http://www.wipo.int/amc/en/events/conferences/1994/briner.html> [Accessed December 17, 2008]; see also François Perret, “L’arbitrabilité des litiges de propriété industrielle en droit comparé: Suisse / Allemagne / Italie” in *Arbitrage et propriété intellectuelle Colloque organisé par l’Institut de recherche en propriété intellectuelle Henri-Desbois* (1994), pp.73 et seq.; see also Kamen Troller, “Intellectual Property Disputes in Arbitration” (2006) 72 *Journal of the Chartered Institute of Arbitrators* 322; for the US, see David W. Plant, “Arbitrability of intellectual property issues in the United States” (Worldwide Forum on the Arbitration of Intellectual Property Disputes, WIPO, 1994), available at <http://www.wipo.int/amc/en/events/conferences/1994/plant.html> [Accessed December 17, 2008]; regardless of the state law controlling a trade secret misappropriation claim, it is becoming less likely that a court in the US would find that such a dispute was permeated with the same public policy or exclusive jurisdiction issues as patent infringement, copyright infringement or trade mark infringement claims. Thus it is likely that courts in the US would find that such a claim is eminently well suited to binding arbitration.

¹⁰⁴ By way of counterexample, it was held by the US Court of Appeal for the 9th Circuit in *Tracer Research Corp v National Environment Services Co* 42 F. 3d 1292 (9th Cir. 2004) that an arbitration clause providing that “[i]n the event any controversy or claim arising out of this Agreement cannot be settled by the parties, such controversy or claim shall be settled by arbitration” did not cover trade secrets disputes which were qualified as tort claims by the court and were thus held not subject to the arbitration clause (“The misappropriation of trade secrets count of Tracer’s complaint is a tort claim . . . The fact that the tort claim would not have arisen ‘but for’ the parties’ licensing agreement is not determinative. [ref. omitted.] If proven, defendants’ continuing use of Tracer’s trade secrets would constitute an independent wrong from any breach of the licensing and nondisclosure agreements. [ref. omitted] Statutory tort remedy does not affect contractual remedies, whether or not based on misappropriation of trade secrets. Therefore, it does not require interpretation of the contract and is not arbitrable under Mediterranean Enterprises. On remand, that claim should be tried in the district court”); this decision is available at <http://bulk.resource.org/courts.gov/c/F3/42/42.F3d.1292.94-16211.html> [Accessed December 17, 2008].

¹⁰⁵ ATF 102 Ia 493.

In order to ensure that trade secrets misappropriation claims shall be arbitrable in a specific case, it can be appropriate to use standard clauses provided for by recognised arbitration institutions, such as the WIPO Arbitration and Mediation Center.¹⁰⁶ In addition, it could be useful to specify that the jurisdiction of an arbitration panel does not prevent a party to request from a state court at the place where the damages occurs the issuing of preliminary injunctions against the persons/entities which are allegedly misappropriating the trade secrets at issue.¹⁰⁷ It is indeed important for the victim of such misappropriation to have the right to obtain injunctive relief at the place where the damage occurs in trade secrets disputes.¹⁰⁸

Even if arbitration can provide an appropriate method for solving cross-border trade secrets disputes by providing a neutral forum as well as offering increased confidentiality of the proceedings,¹⁰⁹ this dispute settlement method may not solve all difficulties.

This can be illustrated by reference to a relatively recent decision of the Swiss Supreme Court.¹¹⁰ In this decision, the Swiss Supreme Court had to decide whether an arbitration clause contained in a "Secrecy Agreement" entered into between two companies (a Belgian company and a Swiss company) for the purpose of a common industrial research and development project which was entered into in 1989 for a one-year period and which expired in 1994 covered the claims of allegedly abusive filing of patent applications (in various countries) which was made by the Swiss company in 1996 and 1997 and which were allegedly based on the confidential information disclosed under and covered by the Secrecy Agreement. The Belgian company had indeed initiated legal proceedings before Swiss state courts at the seat of the Swiss company (in Lucerne) and requested the transfer of the relevant patents and patent applications from the Swiss company.

¹⁰⁶ See the WIPO standard arbitration clause (<http://www.wipo.int/amc/en/mediation/contract-clauses/clauses.html#4> [Accessed December 17, 2008]):

"Any dispute, controversy or claim arising under, out of or relating to this contract and any subsequent amendments of this contract, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. The arbitral tribunal shall consist of [three arbitrators][a sole arbitrator]. The place of arbitration shall be [specify place]. The language to be used in the arbitral proceedings shall be [specify language]. The dispute, controversy or claim shall be decided in accordance with the law of [specify jurisdiction]."

¹⁰⁷ This is clarified in the WIPO Arbitration Rules (<http://www.wipo.int/amc/en/arbitration/rules/> [Accessed December 17, 2008]) as follows (art.46d):

"A request addressed by a party to a judicial authority for interim measures or for security for the claim or counter-claim, or for the implementation of any such measures or orders granted by the Tribunal, shall not be deemed incompatible with the Arbitration Agreement, or deemed to be a waiver of that Agreement.

¹⁰⁸ See Greguras, "Intellectual property strategy and best practices for R&D services in China" [2007] *Computer Law & Security Report* 449, 451, insisting on the fact that "the right to obtain injunctive relief for IP leakage needs to be expressly excluded from the obligation to arbitrate".

¹⁰⁹ See for instance Philip J. McConaughay, "ADR of Intellectual Property Disputes Conference", available at http://www.softic.or.jp/symposium/open_materials/11th/en/PMcCon.pdf [Accessed December 17, 2008].

¹¹⁰ Ref. 4C.40/2003, available in the original German version on the website of the Swiss Supreme Court, <http://www.bger.ch>.

The arbitration clause had the following wording:

“ . . . [T]he parties shall try in good faith to settle amicably any difference or dispute resulting from or with regard to this agreement. Should they not succeed, the matter shall be settled under the Rules of conciliation and Arbitration of the International Chamber of Commerce by one or more arbitrators appointed in accordance with the said rules. Such Arbitration shall take place in Lucerne in the English language.”

The Swiss Supreme Court held that the arbitration clause covered the dispute over the ownership of the disputed patent and patent applications because of the close relationship between the subject of the dispute and the Secrecy Agreement irrespective of the fact that the patent applications were filed several years after the expiration of the Secrecy Agreement. On this basis, the Swiss Supreme Court held that this dispute was to be solved by arbitration and not by Swiss state courts.¹¹¹

This decision is quite interesting in the context of the cross-border exchange of trade secrets given that it confirms that arbitration can (potentially) validly solve this type of disputes. However, this decision does not discuss the issue of the arbitrability of patent ownerships disputes as such. In view of the arbitration-friendly approach of Swiss law,¹¹² an arbitration panel with seat in Switzerland could have the power to decide on the issue of the ownership of foreign patents. However, such decision could still risk to face enforcement difficulties according to the local laws of the country where the patents have been registered/applied for on the ground that disputes about the ownership of patents would not be arbitrable in such jurisdiction for public policy reasons.¹¹³ As a result, limits to the efficiency of arbitration as a global alternative dispute resolution method may result from the local rules governing the arbitrability of trade secret related disputes such as patent ownership disputes.

Similarly, should a trade secrets misappropriation claim arise in the context of a labour contract for which an arbitration clause would have been agreed upon in the employment agreement, the enforcement of an award could be difficult because other jurisdictions in which enforcement of the award would be sought would prohibit

¹¹¹ By applying art.7 of the SAPIL (which provides that if the parties have concluded an arbitration agreement concerning an arbitrable dispute, the Swiss court which is invoked shall decline jurisdiction except in narrowly defined cases).

¹¹² The US has also adopted a pro arbitration approach to this issue as confirmed in the recent decision *INVISTA North America, Sàrl v Rhodia Polyamide Intermediates SAS* No.06-2180, 2007 WL 2230273 (D.D.C. Aug 6, 2007); for a comment on this case, see “Inventorship Disputes Can Be Resolved Through Arbitration”, http://www.arb-forum.com/adr_CaseDetails.aspx?caseid=1157 [Accessed December 17, 2008].

¹¹³ On this issue, see Stefan Liniger, *Immaterialgüterrechtliche Streitigkeiten vor internationalen Schiedsgerichten mit Sitz in der Schweiz* (2002), pp.114–115; it can be noted by analogy that art.16(4) of the Lugano Convention provides for an exclusive jurisdiction as follows: “in proceedings concerned with the registration or validity of patents, trade marks, designs, or other similar rights required to be deposited or registered, the courts of the Contracting State in which the deposit or registration has been applied for, has taken place or is under the terms of an international convention deemed to have taken place” (it being however noted that the Lugano Convention is not applicable to arbitration so that this provision only shows that states may validly consider that all matters relating to the registration or validity of industrial property rights are to be exclusively handled by judicial authorities located in their jurisdiction).

arbitration for labour disputes¹¹⁴ or would submit such arbitration to specific rules.¹¹⁵ This could thus potentially prevent the enforcement of an arbitral award rendered by an arbitration panel located in an arbitration-friendly jurisdiction in a foreign country which would not, or which may be promoting local arbitration institutions¹¹⁶, it being however noted that a relatively important number of countries are parties to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards of June 10, 1958 (New York Convention)¹¹⁷ which defines and limits the grounds of non-enforceability of foreign awards.¹¹⁸ Similarly, parties to an international contract providing for arbitration may also try to avoid arbitration before a foreign arbitration body by submitting the case to a local labour court by claiming that the (commercial) dispute should in reality be viewed as a labour dispute.¹¹⁹

¹¹⁴ This seems to be the case in Japan under the Japanese Arbitration Act; see Newsletter 17 (April 2004) of the Japan Commercial Arbitration Association (<http://www.jcaa.or.jp/e/arbitration-e/syuppan-e/newslet/news17.pdf> [Accessed December 17, 2008]): stating (at p.6) that "With respect to individual employment arbitration, Art. 4 in the Supplementary Provisions of the New Law stipulates that an arbitration agreement between an individual employee, including a person seeking employment, and a business employer to submit disputes that may arise in the future is invalid"; it further appears that patent invalidation procedures are not civil disputes and are thus not subject to arbitration under Japanese law, see decision of the Tokyo District court of October 21, 2005 (*Taiyō Ink Seizō v Tamura Kaken Inc* [2007] I.I.C. 841); for a discussion under Swiss labour law (with a view on the draft Swiss Code of Civil Procedure), see François Bohnet, "L'arbitrage des conflits individuels de travail selon le projet de code de procédure civile Suisse" in *Jusletter* (<http://www.jusletter.ch>) of December 4, 2006.

¹¹⁵ See the Law on Labor Dispute Mediation and Arbitration of the People's Republic of China (<http://tradeinservices.mofcom.gov.cn/en/b/2007-12-29/27880.shtml> [Accessed December 17, 2008]).

¹¹⁶ See Clarisse von Wunschheim and Fan Kun, "Arbitrating in China: the Rules of the Game, Practical Recommendations concerning Arbitration in China" [2008] *Review of the Swiss Arbitration Association* (ASA Bulletin) 35, 43 (2008), recommending, for arbitration in China, to "avoid choosing a foreign arbitration institution", by referring to Jingzhou Tao and Clarisse von Wunschheim, "Art. 16 and 18 of the PRC Arbitration Law: the Great Wall of China for Foreign Arbitration Institutions" [2007] 23 *Arbitration International* 309.

¹¹⁷ See the countries listed at http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention_status.html [Accessed December 17, 2008] (among which the United States of America, China, Japan and Switzerland).

¹¹⁸ See in particular art.V(2)(a) (non-arbitrable matter in the state where enforcement is sought) and (b) (*ordre public*).

¹¹⁹ In the Danone-Wahaha joint venture dispute, the lawyers of the Chinese partner (Mr Zong) apparently tried to avoid the arbitration in Stockholm by claiming that the alleged breach of non-compete and non-disclosure agreements by Mr Zong falls within the purview of the Chinese labour law, since Mr Zong was in an employment relationship with the Wahaha-Danone joint venture. They further claimed that the Chinese labour law controls labour disputes between parties within the boundaries of the P.R.China. As a result, upon establishing the proper law to be applied in the dispute between Danone and Zong personally, Zong's lawyers employed their sharp weapon—arbitration arising under a labour dispute should be inside China pursuant to art.79 [of the Chinese labor law]: "Where a labor dispute takes place, the parties involved may apply to the labor dispute mediation committee of their unit for mediation; if the mediation fails and one of the parties requests for arbitration, that party may apply to the labor dispute arbitration committee for arbitration. Either party may also directly apply to the labor dispute arbitration committee for arbitration. If one of the parties is not satisfied with the adjudication of arbitration, the party may bring the case to a people's court" Brad Luo, *Wahaha v Danone: My Arbitration is Better Than Yours (II)*; available at <http://chinabusinesslaw.blogspot.com/2007/08/wahaha-v-danone-my-arbitration-is.html> [Accessed December 17, 2008]; see also the article of Steven M. Dickinson, "Danone v. Wahaha: Lessons for Joint Ventures in China", at <http://www.chinalawblog.com/DanoneWahahaLessons.pdf> [Accessed December 17, 2008].

2.2.3.2.2 Regulatory constraints affecting the protection of the confidentiality of arbitration proceedings

The confidentiality of arbitration proceedings relating to a dispute about misappropriation of trade secrets is also particularly critical for the parties.¹²⁰ It is indeed quite obvious that parties to an agreement relating to trade secrets (such as a know-how licence agreement, or a research and development agreement) who chose arbitration for settling their disputes wanted to protect as much as possible the confidentiality of the technology (i.e. trade secrets) at issue. However, state regulations outside of the field of substantive intellectual property law can limit such protection which was called for and expected by the parties. This issue was addressed in a recent decision of the Swiss Supreme Court which was rendered upon an appeal from an arbitral award.¹²¹

In this case, the appealing parties requested the Swiss Supreme Court to exclude any publicity about the case, i.e. to prohibit the publication of the decision of the Supreme Court (in particular on its website).¹²² The Swiss Supreme Court rejected this request by stating that there was a strong public policy which required the publication of the decision (in an anonymised format). The Swiss Supreme Court admitted that parties can claim, by showing legitimate grounds, the exclusion of the publicity of the proceedings before the court and can also waive the publication of the decision. The court further explained that the decision about the publication of the decision must be made by balancing the private interests of the parties for confidentiality and the public interest of justice which pleads for the publicity of the proceedings. The Swiss Supreme Court stated in this respect that the parties had the opportunity to exclude the risk of publicity connected to proceedings before state courts by waiving their right to appeal the arbitral award to the Swiss Supreme Court as permitted under art.192 of the Swiss Act on Private International law (SAPIL). However, as this expressly results from art.192(1) SAPIL, such waiver of the right to appeal is possible only where no party (to the arbitration agreement) has its domicile, ordinary residence or a business establishment in Switzerland. On this basis, a Swiss-based party to an arbitration agreement (with the seat of the arbitration in Switzerland)¹²³ would not be able to escape the publicity of an appeal to the Swiss Supreme Court because a waiver of the right to appeal would not be enforceable. As a result, this argument raised by the court is not fully convincing.

In any case, the Swiss Supreme Court further acknowledged the fact that the dispute between the parties which was the subject of the arbitration related to highly confidential

¹²⁰ On the issue of confidentiality and arbitration proceedings in general, see François Dessemontet, "Arbitrage et confidentialité" in Jean-Marc Rapp and Michel Jaccard (eds), *Le droit en action* (1996), p.61.

¹²¹ Decision 4P.74/2006 of June 19, 2006; the arbitral proceedings were submitted to the ICC rules.

¹²² Based on the information provided in this decision, approximately two-thirds of the decisions of the Swiss Supreme Court are made available online on a publicly accessible database on its website at <http://www.bger.ch>; see art.59(3) of the Act on the Swiss Supreme Court relating to the requirement of publicity of court proceedings and of decisions ("Loi sur le Tribunal fédéral" of June 15, 2005, SC 173.110).

¹²³ This is a condition of application of the Swiss private international law on arbitration and thus of art.192 SAPIL pursuant to art.176(1) SAPIL.

trade secrets, and expressly referred to the submission made by the arbitral tribunal to the Swiss Supreme Court.¹²⁴ On this basis, the Swiss Supreme Court admitted that the parties had important legitimate interests in confidentiality. However, the Swiss Supreme Court stated that the parties had not shown any important legitimate interest regarding the confidentiality of their own identity and of the existence of the dispute itself. For this reason, the Swiss Supreme Court rejected the claim that the decision of the Swiss Supreme Court shall not be made available (in the premises of the court) even if it would disclose the names of the parties as this is done for all its other decisions.

With respect to the online publication of the decision, the Swiss Supreme Court stated that there was a strong public interest in publishing its case law as a result of the requirement of transparency. In addition, the Swiss Supreme Court stated that the decision at issue contained important developments which are of legal interest for future reference but that the decision did not reveal any elements for which an interest for confidentiality would exist (i.e. the decision does not describe or reveal any confidential trade secrets but rather addresses procedural issues). On this basis, the Swiss Supreme Court decided that the decision shall be made available online (in an anonymised format and without any reference to the name and nationality of the parties in dispute and even to the governing law of the agreement about which the dispute arose).¹²⁵

This decision is interesting given that it shows that regulatory constraints (here the publicity of court proceedings and of court decisions) may affect the scope of the protection of confidentiality and of trade secrets in spite of the fact that the parties by their very choice of arbitration for settling their disputes wanted to keep—as acknowledged by the Swiss Supreme Court itself—the highest possible level of confidentiality about their dispute as well as—and perhaps more importantly—about the underlying trade secrets about which the dispute arose. From this perspective, the decision of the Swiss Supreme Court is not optimal from the perspective of the protection of confidentiality of arbitration proceedings in general¹²⁶ and more specifically for arbitration proceedings relating to the alleged misuse and misappropriation of highly confidential trade secrets.¹²⁷

¹²⁴ Which stated (at [8.4.2] of the decision): “dans cette procédure, les parties ont fait de la confidentialité une exigence allant au-delà de ce qui est usuel en matière d’arbitrage. En d’autres termes, les parties, la Chambre de commerce internationale et le Tribunal arbitral ont pris toutes précautions pour assurer la discrétion quant à l’existence, l’objet de ce litige et aux arguments invoqués”.

¹²⁵ The decision is thus available at <http://www.bger.ch>.

¹²⁶ On this issue, see in general Christoph Müller, “La confidentialité en arbitrage commercial international: un trompe-l’oeil?” (2005) 2 Bulletin ASA 215.

¹²⁷ For critical comments, see Philipp Ritz, “Die Geheimhaltung im Schiedsverfahren nach schweizerischem Recht”, thesis, University of Bern (2007), p.225; Vera van Houtte, “What’s New in European Arbitration?” (Nov 2006—Jan 2007) *Dispute Resolution Journal*, available at http://findArt.s.com/p/Art.s/mi_qa3923/is_200611/ai_n17194797/print [Accessed December 17, 2008]; for another analysis, see Pierre-Yves Tschanz, “Confidentiality of Swiss Supreme Court Review of Arbitral Awards” (Sept 26, 2006), available at <http://www.mondaq.com/Art..asp?Art.id=43062> [Accessed December 17, 2008].

3. MUSIC

In the internet age, it is no secret that music flows across borders and is intensively exchanged on a global scale be there legally or—unfortunately mostly—illegally.

Even though exchanges of music obviously take place between the countries on which this article has focused, it appears that such exchanges of music take place with less intensity than the ones of trade secrets which is the reason why the issue of music will be addressed in a more global manner.

However, the reason why the issue of the cross-border exchange of music is quite interesting to analyse is because it raises a range of questions which do not arise at all when dealing with the cross-border exchange of trade secrets. While trade secrets are business assets and thus essentially raise commercial issues, the cross-border exchange of music additionally raises *cultural* issues and potentially affects the *non-financial* interests of the stakeholders which must also be taken into account when addressing the issue of the promotion of the cross-border exchange of music between countries.

First, it is important to briefly evoke the international framework for the protection of music (see below 3.1). It will then be focused on issues of private international law (see below 3.2), and finally the issue of the collective management of musical works which is quite critical in the internet age will be addressed (see below 3.3).

3.1 The international protection of music

Musical works are globally protected by copyright law under all the international copyright conventions.¹²⁸ In addition, performers of music and producers of phonograms also enjoy protection under the WIPO Performers and Phonograms Treaty (WPPT), which was adopted in Geneva in December 1996 and entered into force on May 20, 2002.¹²⁹

As a result of this, the level of protection which is enjoyed by right holders (i.e. holders of copyrights and of neighbouring rights) is vastly harmonised at the international level, even though conflicts have arisen in the past¹³⁰ or are still pending before the WTO about copyright law (relating to musical works in particular).¹³¹ In spite of this, it can be considered that the conditions and extent of the protection of musical works is largely similar at the global level even though differences in the substantive scope of protection may exist between the relevant national regulations in particular with respect to new technological developments (for instance with respect to the liability of

¹²⁸ TRIPS/Berne Convention for the Protection of Literary and Artistic Works of September 28, 1979/WIPO Copyright Treaty (WCT) of December 20, 1996 / Copyright Universal Convention of September 6, 1952 arts 9 *et seq.*

¹²⁹ Switzerland has ratified and has adopted the implementing regulation which entered into force on July 1, 2008.

¹³⁰ See the DS160 case concerning s.110(5) of the US Copyright Act between the EU and the US in which both Japan and Switzerland (among others) were third parties in the proceedings; see http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds160_e.htm [Accessed December 17, 2008].

¹³¹ See the pending WTO dispute between the US and China in which Japan has joined as a third party (among other countries) which was initiated on April 10, 2007: http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds362_e.htm [Accessed December 17, 2008].

internet intermediaries such as search engines).¹³² In addition, this of course does not exclude that difficulties of enforcement of the protection against broad scale piracy may prevent the cross-border flow of musical works to countries in which the enforcement of copyright law is potentially difficult, which is still the case in China.

Differences between national regulations may also exist in particular with respect to the nature and scope of moral rights for which the TRIPS minimum standard of protection does not apply.¹³³

3.2 Hurdles resulting from private international law

The private international law aspects of copyright law are complex and not harmonised at the international level.¹³⁴ They are even more complex in the face of the global borderless online use of copyright protected content which is available on the internet. The complexity of these legal issues clearly affects the cross-border flow and use of music. This can be shown by addressing first the issue of the jurisdiction for copyright infringement claims (see below 3.2.1), before turning to the issue of the governing law (see below 3.2.2).

3.2.1 *The jurisdiction for copyright infringement claims*

Given that the issue of jurisdiction for copyright infringement activities on the internet can be delicate, suggestions were made in order to promote alternative dispute resolution methods in order to solve such disputes before a unique court or other dispute resolution body on the basis of a choice of court agreement (for instance via the required subscription agreements which are entered into by each and every Internet user with their internet access providers).¹³⁵ Under the Hague Convention for choice of court agreements of June 30, 2005, choice of court agreements relating to copyright infringements issues would be valid even if such copyright infringement claims do not relate to a breach of contract (i.e. breach of a copyright licence/assignment agreement).¹³⁶ If the issue of copyright validity is raised as the principal object of the dispute, this would not prevent the application of a choice of court agreement under

¹³² For a reproach against the efficiency of the protection against search engines under Chinese copyright law, see Steven Schwankert, "Music Industry Groups Denounce 'Incorrigible' Baidu", *New York Times*, June 4, 2008, <http://www.nytimes.com/idg/IDG.852573C4006938804825745E0007236F.html?ref=technology> [Accessed December 17, 2008].

¹³³ TRIPS art.9(1) specifically excludes art.6bis of the Berne Convention; however, China, Japan and Switzerland are all parties to the Berne Convention itself.

¹³⁴ See in general the reports prepared for WIPO by Jane C. Ginsburg, "Private International Law Aspects of the Protection of Works and Objects of Related Rights Transmitted Through Digital Networks, 2000 Update" (WIPO 2001) (http://www.wipo.int/edocs/mdocs/mdocs/en/wipo_pil_01/wipo_pil_01_2.doc [Accessed December 17, 2008]), and by André Lucas, "Private International Law Aspects of the Protection of Works and of the Subject of Related Rights Transmitted Through Digital Networks", GCPIIC/1(1998) (http://www.wipo.int/edocs/mdocs/mdocs/en/gcpic/gcpic_1.doc [Accessed December 17, 2008]); see also Jane C. Ginsburg, "The Private International Law of Copyright in an Era of Technological Change" (1998) 239 *Recueil des cours de La Haye* 273.

¹³⁵ For such an approach, see Philippe Gilliéron, *Les méthodes alternatives de résolution des conflits comme voie ordinaire pour résoudre les litiges relatifs aux droits de propriété intellectuelle dans le cyberspace* (2005) *Swiss Intellectual Property, Information and Competition Law Review* pp.723 et seq.

¹³⁶ Further to art.(2)(2)(o), the Hague Convention does not apply either to "infringement of intellectual property rights other than copyright and related rights, except where infringement proceedings are

the Hague Convention.¹³⁷ Choice of court clauses (or arbitration clauses) can in any case be agreed in the agreements entered into between the national copyright collecting societies even though it appears that disputes between collecting societies are generally solved amicably without recourse to litigation. Beyond these specific cases, jurisdiction shall be found at the place of domicile of the defendant and at the place where the infringing activity/damage takes place (both at the place of the action as well as the place of the result of such action).¹³⁸

3.2.2 *The law governing copyright infringement claims*

The European and the Swiss rules of private international law regarding copyright infringement claims (as well as other intellectual property infringement claims) rely on the traditional principle of *lex protectionis*, i.e. the applicable law is the law of the state for which the protection is sought.¹³⁹ This principle which is anchored in the principle of territoriality leads to the potential application of multiple national intellectual property laws in the case of a cross-border multinational copyright infringement activity.

In this context, one of the difficulties of application of the *lex protectionis* is the delimitation of its respective scope of application with the law applicable to intellectual property agreements which shall apply to a contract relating to an intellectual property right (i.e. a contract relating to the assignment or to the licence of an intellectual property right and specifically of a copyright). As discussed above with respect to trade secrets, under the Swiss rules of private international law, “contracts concerning intellectual property rights shall be subject to the law of the state in which the party transferring the intellectual property rights or granting the use thereof has its ordinary residence” (art.122(1) SAPIL), it being however provided that a contractual choice of law clause is valid (art.122(2) SAPIL). From this perspective, the intellectual property issues remain subject to the principle of territoriality and are governed by the principle of *lex protectionis* and can thus be governed by different national intellectual property laws in a cross-border context, whereas by contrast the contractual issues of intellectual property agreements shall be governed by a unique law which can be chosen by the contracting parties (in the absence of such choice, the law of the country of the assignor/licensor shall govern).

This tension between the unique law governing the contractual issues and the multiple laws governing the intellectual property issues (and specifically the copyright issues) may lead to potential difficulties as this can be shown by a practical example.

Under Swiss copyright law and under Japanese copyright law indeed, an assignment of copyright can be made tacitly (i.e. without any written agreement) and thus does

brought for breach of a contract between the parties relating to such rights, or could have been brought for breach of that contract”.

¹³⁷ Pursuant to art.2(2)(n), the Hague Convention does not apply to “the validity of intellectual property rights other than copyright and related rights”.

¹³⁸ See art.109 SAPIL, art.2 and art.5(3) of the Lugano Convention.

¹³⁹ Regulation 864/2007 of the European Parliament and of the Council of July 11, 2007 on the law applicable to non-contractual obligations (Rome II) art.8(1): “The law applicable to a non-contractual obligation arising from an infringement of an intellectual property right shall be the law of the country for which protection is claimed”; art.110(1) SAPIL : “Intellectual property rights shall be subject to the law of the state with respect to which protection is requested”.

not require that subdivided rights shall be individually mentioned in order to be validly transferred. This means that an author (or the holder of neighbouring rights) can transfer his/her copyrights to an assignee without having entered into a formal copyright assignment agreement. In spite of this, Swiss copyright law provides for protective mechanisms the purpose of which is to ensure that in case of doubt on the scope of the transfer the author shall not transfer more rights than what is requested for the purpose of performing the agreement. For instance, if the purpose of the agreement is to publish an article once in a newspaper, the author is not deemed to have transferred to the publisher the right to publish the article a second time in another newspaper.¹⁴⁰ As a result, the principle is that in case of doubt/uncertainty on the scope of a transfer of the copyrights the copyrights shall remain with the author (*in dubio pro auctore*).¹⁴¹

In any case, this informality of copyright assignment agreements under Swiss and Japanese copyright laws may conflict with the formal requirements which must be met under Chinese copyright law for effecting a copyright assignment. Under art.25 of the Copyright Law of the People's Republic of China of 2001, the assignment of the economic copyrights must indeed be made in writing. In addition, a copyright assignment contract must contain certain basic clauses, including the title of the work, the assignment price, the date and manner of payment of the assignment price and such contract must also regulate the "liabilities for breach of contract".¹⁴²

This means that under Swiss law a Swiss author could tacitly transfer his copyright on a musical work (that he would have created) to a Chinese music producer or transfer his copyright in a writing which would not meet the formal requirements imposed by Chinese copyright law.

However, even though such a transfer would be valid under Swiss law with respect to Switzerland (and potentially Japan),¹⁴³ such a transfer might not be held valid in China because it would not meet the formal requirements for effecting a copyright assignment

¹⁴⁰ See the decision of the Swiss Supreme Court ATF 101 II 102.

¹⁴¹ Swiss Copyright Act art.16(2).

¹⁴² Copyright Law of the People's Republic of China art.25 (http://www.ipr.gov.cn/ipr/en/info/Art.jsp?a_no=1962&col_no=118&dir=200603 [Accessed December 17, 2008]):

"Assignment of a right referred to in Art. 10, paragraphs (5) to (17), of this law shall require conclusion of a contract in writing.

A contract of assignment shall include the following basic clauses:

- (1) title of the work;
- (2) category and geographic area of the assigned right;
- (3) assignment price;
- (4) date and manner of payment of the assignment price;
- (5) liabilities for breach of the contract; and
- (6) any other matters that the contracting parties consider necessary.

¹⁴³ It being noted that under Swiss private international law (art.124(1) SAPIL), and pursuant to the principle under which the validity of contracts should be fostered (*favor validitatis*), a contract is valid with respect to its formal requirements if it meets the requirements defined in the law governing the contract or in the law of the place where the contract was entered into; this rule of Swiss private international law does not, however, mean that foreign jurisdictions would also apply such rule in particular if the formal conditions which are imposed for copyright contracts aim at protecting the authors as weaker contracting parties and thus have a public policy nature; on this approach see Paul Katzenberger, "Protection of the Author as the Weaker Party to a Contract under International Copyright Contract Law" [1998] I.I.C. 731.

because the assignment was not made in writing and/or because it did not enumerate the “category and geographic area of the assigned rights”.¹⁴⁴

The same issue could arise with respect to the issue of transferability/waivability of the moral rights of an author. Under Swiss copyright law, an author cannot validly waive in advance his right of integrity in the form of a blanket waiver by which the author would authorise in advance a third party to modify his work in any possible manner.¹⁴⁵ Diverging solutions in China and Japan may thus also cause conflicts.¹⁴⁶

Here again, it can be imagined that a Chinese composer and a Japanese company might enter into a music production agreement which might be submitted to Swiss law (as the law of a neutral third-party country) in which the composer would be forced (because of an imbalance of bargaining power) to assign/waive his moral rights to the extent admissible under Swiss law. In this case, this contractual choice of Swiss law cannot prevent the potentially more protective copyright rules for authors which may exist under Chinese or Japanese copyright laws which would remain applicable given that rules regarding the assignability/transferability of copyrights shall be defined by the *lex protectionis* (reflecting the principle of territoriality). This territorial approach is clearly expressed in the private codification of the rules on the private international law aspects of intellectual property law (drafted by three renowned specialists of the field¹⁴⁷) which was adopted by the American Law Institute in May 2007 under the title “Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgements in Transnational Disputes”. This codification provides under the title “transferability” that “(1) The intellectual property law of each State for which rights are to be transferred governs the extent of their transferability for each State” (§314). This is also expressed by §302 relating to Agreements Pertaining to Choice of Law which provides that “(1) Subject to the other provisions of this Section, the parties may agree at any time, including after a dispute arises, to designate a law that will govern all or part of their dispute”. However, §302 (2) states that “[t]he parties may not choose the law that will govern the following issues . . . (b) the existence, attributes, transferability, and duration of rights, whether or not registered . . .”.

Even though these provisions confirm the autonomy of the parties to choose by contract the set of national rules which shall apply to their relationships, they specifically reserve particular issues which cannot be left to the freedom of the parties because such issues are governed by local intellectual property laws such as the one relating to the transferability of the rights.

¹⁴⁴ Chinese Copyright Law art.25(2).

¹⁴⁵ Swiss Copyright Act art.11(2) provides that “even if this has been authorized by contract or by the law, the author has the right to oppose substantive changes made to his work if such changes violate the author’s personality”; on this issue see the author’s thesis: Jacques de Werra, “Le droit à l’intégrité de l’oeuvre” (1997).

¹⁴⁶ For Japan, see the contribution of Prof. Tatsuhiro Ueno, “Chapter V (Moral Rights)” in Peter Ganeva, Christopher Heath and Hiroshi Saitō (eds), *Japanese Copyright Law* (2005), p.41 *et seq.*, stating that “[t]he discussion whether or to what extent the waiver of moral rights should be allowed has not yet found a satisfactory solution”.

¹⁴⁷ Prof. Rochelle Dreyfuss (NYU), Prof. Jane C. Ginsburg (Columbia), and Prof. François Dessemontet (University of Lausanne, Switzerland).

As a result, it can be concluded here again, similarly to what was discussed with respect to trade secrets, that rules of private international law governing intellectual property law for musical works are complex and not harmonised, which may lead to conflicts which in turn may prevent or at least negatively affect the cross-border flow and use of musical works.

This difficulty also results from the conflicting private international regimes of copyright law itself (which is based on the principle of territoriality and thus results in a *multiplicity* of parallel national laws) and to copyright contracts (which are based on the principle of *unicity* of the governing law).

3.3 The collective management of musical works in the online environment

Irrespective of the deficiencies in the effective protection of copyright law in a given jurisdiction at the level of substantive law, hurdles to an efficient protection can also indirectly result from the potential deficiencies of the collecting management system which applies in such jurisdiction. This can particularly be evidenced with respect to China as shown in a recent report which contains key recommendations aiming at improving the collecting management of copyrights in China (among which the creation of new copyright management societies, the adoption of tariffs, the entering into reciprocal representation agreements with foreign collecting societies, etc.).¹⁴⁸

The collective management of musical works has been challenged by the advent of the digital technology and the global online use of digital content that such technology has enabled because the collective management system is anchored in the principle of territoriality, even though national collective copyright management societies are generally bound by so called reciprocal representation agreements with sister foreign collective copyright management societies for which they manage their portfolio in the local territory.¹⁴⁹ However, pressure has come from the users of online music services and from antitrust authorities to set up a system which would allow the granting of multi territorial licences.¹⁵⁰ Such pressure has particularly been felt in Europe, which will be focused on below.

In order to address this issue, a solution was proposed by some national copyright collecting societies (in the course of the so-called Santiago and Barcelona agreements¹⁵¹ to which national copyright collecting societies, including SUISA, i.e. the Swiss collecting society for musical works, took part¹⁵²) in the course of which it was agreed to set up a one-stop licensing shop for online uses but which also provided for the obligation of users (i.e. online music platforms) to obtain a licence for music from the collecting

¹⁴⁸ See the report drafted under the EU–China Trade Project, *Collective Management of Authors' Rights and Related Rights in the EU and the PRC: Benefits & Challenges in the Digital Era* (May 2008), available at http://www.euchinawto.org/index.php?option=com_content&task=view&id=245&Itemid=1.

¹⁴⁹ For a general discussion of collecting rights societies in the digital environment, see Philippe Gilliéron, "Collecting Societies and the Digital Environment" [2006] I.I.C. 939.

¹⁵⁰ See Lucie Guibault, "When will we have cross-border licensing of copyright and related rights in Europe?" (April–June 2005) *Copyright Bulletin* (UNESCO), available at http://portal.unesco.org/culture/en/files/27418/11514153461guibault_en.pdf/guibault_en.pdf [Accessed December 17, 2008].

¹⁵¹ On these agreements, see Jean Cavalli, "La gestion des droits d'auteur exploités sur internet" *Internet 2005*, [2005] p. 198.

¹⁵² See <http://www.suisa.ch>.

society in the country where they effectively operate.¹⁵³ This measure was adopted in order to prevent users from embracing a kind of “forum shopping” approach and to contract with the collecting society offering the cheapest tariffs located in a foreign jurisdiction which would obviously constitute a detrimental race to the bottom between the national collecting societies.

This approach raised critical comments from the European antitrust authorities which even launched a statement of objection against these measures proposed by the copyright collecting societies because they would allegedly be anti-competitive.¹⁵⁴

Subsequently, the European commission issued Recommendation 2005/737 on collective cross-border management of copyright and related rights for legitimate online music services on October 18, 2005,¹⁵⁵ the goal of which was to create/increase the competition between copyright collecting societies and to institute the free choice of the right holders to entrust their online rights to the collecting society of their choice and to adopt the right of the chosen collecting society to license out the musical work in the whole EU territory. Article 3 of the Recommendation provides in this respect that:

“Right-holders should have the right to entrust the management of any of the online rights necessary to operate legitimate online music services, on a territorial scope of their choice, to a collective rights manager of their choice, irrespective of the Member State of residence or the nationality of either the collective rights manager or the right-holder.”

This fully liberalised and pro-competitive solution adopted by the EU authorities generated some fears among the collecting societies which criticised this approach, because it would create a detrimental competition between collecting societies and turn them into money driven institutions (which they are not supposed to be given that they are also to meet the social and cultural needs of their members, i.e. the composers and other right holders). If indeed users were able to freely shop for the cheapest tariffs among the competing national collecting societies, the collecting societies would be practically forced to engage into a race to the bottom for their tariffs in order to attract and keep clients wishing to obtain multi-territorial licences for the online use of music. This competition-based approach has also been recently and heavily criticised by the European Composer and Songwriter Alliance (ECSA) in a public appeal made to the EC President on July 3, 2008.¹⁵⁶ From a cultural perspective, such a system would threaten

¹⁵³ See Martti Kivistö, “European Collective Management in Turbulence” (2008), at http://www.iprinfo.com/page.php?page_id=35&action=articleDetails&a_id=538&id=37 [Accessed December 17, 2008].

¹⁵⁴ Matter COMP/C2/38.126—BUMA GEMA SACEM PRS, statement of objections of April 29, 2004; see IP/04/586 of May 3, 2004.

¹⁵⁵ See http://eur-lex.europa.eu/LexUriServ/site/en/oj/2005/l_276/l_27620051021en00540057.pdf [Accessed December 17, 2008].

¹⁵⁶ See the press release of ECSA, at http://www.composeralliance.org/?page_id=19 [Accessed December 17, 2008]; see also Kimberly Chow, “EU musicians oppose Europe-wide online royalties; outcome could affect iTunes” (July 3, 2008), at http://www.usatoday.com/tech/products/2008-07-03-3723227684_x.htm [Accessed January 16, 2009] (“Gibb [i.e. a singer of the famous Bee Gees band] and three other composer-songwriters, representing the European Composer and Songwriter Alliance, or ECSA, warned that drastic changes to Europe’s current online music market could reduce the royalties that musicians,

local culture and local musical expressions which have been financed so far by local copyright collecting societies. In Switzerland, the collecting society for musical works (SUISA) has by way of example set up an independent foundation (the goal of which is to promote Swiss musicians and which is financed by the fees that are perceived by SUISA for certain type of use of musical works).¹⁵⁷

This system would have the end effect of threatening cultural diversity, it being noted that cultural diversity is becoming an important issue on the global political arena as confirmed by the quite remarkable success of the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions of October 20, 2005 (which entered into force on March 18, 2007) as this is evidenced by the ever increasing number of its ratifications.¹⁵⁸

This risk was expressly acknowledged in a Commission Staff working document accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Creative Content Online in the Single Market of January 3, 2008 (SEC(2007) 1710),¹⁵⁹ which provides (at p.25) that:

“Any licensing system that results in a ‘race to the bottom’ on licensing rates that apply for online services, would be highly detrimental to the livelihood of musical writers and composers, the survival of collecting societies and, in consequence, cultural diversity.”

In that Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on Creative Content Online in the Single Market of January 3, 2008 (COM(2007) 836 final), the interest for multi-territorial licenses has however been repeated).¹⁶⁰

particularly lesser-known ones with fewer sales, depend on to keep writing songs. ECSA said that if major online services can negotiate lower, region-wide fees, artists could get less for their songs despite seeing them distributed more widely”).

¹⁵⁷ See the description of the SUISA Foundation for Music (<http://www.suisa.ch/en/suisa-foundation/about-us/> [Accessed December 17, 2008]) where it is stated that the Foundation receives an allocation corresponding to 2.5% of SUISA’s domestic performance and broadcasting revenues and that the Foundation has promoted all genres of music by supporting the projects of Swiss composers, supporting publishers who encourage the creative work of Swiss composers; publishing and distributing record anthologies of all kinds of music, with a view to ensuring a comprehensive selection of Swiss music and conducting campaigns for the promotion of Swiss music in Switzerland and abroad.

¹⁵⁸ 93 at present; see <http://portal.unesco.org/la/convention.asp?KO=31038&language=E> [Accessed December 17, 2008].

¹⁵⁹ See http://ec.europa.eu/avpolicy/docs/other_actions/col_swp_en.pdf [Accessed December 17, 2008].

¹⁶⁰ See Communication at p.5:

“As a result of copyright territoriality, a content service provider has to obtain the right to make content available in each Member State. The costs incurred, may be detrimental to the exploitation of a vast majority of European cultural works outside their national markets. The online environment allows content services to be made available across the Internal Market. However, the lack of multi-territory copyright licences makes it difficult for online services to fully benefit from the Internal Market potential. While it is first for right holders to appreciate the potential benefits of multi-territory licensing, there is a need to improve the existing licensing mechanisms to allow for the development of multi-territory licensing mechanisms, for instance by promoting fair competition on the market for rights management.”

In a follow-up document released by the Commission in February 2008, the goal of which was to summarise and systematise the monitoring of Commission Recommendation 2005/737 subsequent to a “call for comments” issued on January 17, 2007,¹⁶¹ different obstacles in setting-up EU-wide licensing arrangements were identified by stakeholders, among which litigation because:

“Collecting societies are heavily engaged in litigation against each-other, thus impeding progress on the above-mentioned initiatives. Collecting societies are not unanimous about the preferred licensing model and, in some instances, question other societies’ mandate to license their repertoire on an EU-wide basis”,

and also tax issues because:

“Each Member State applies a withholding tax, which appears to inhibit the free cross-border and multi-territorial trade of online music rights in the Internal Market” and the identification of works because “[s]ome collecting societies have pointed that identification of works to be licensed is one of the main obstacles.”

These identified obstacles confirm that difficulties coming from different legal fields (such as tax law with respect to withholding tax) may affect or even prevent the setting-up of a multi-territorial licensing system for musical works and may thus affect the cross-border flow and use of musical works.

On July 16, 2008, the EU Commission has issued a very important decision in a dispute relating to the anti-competitiveness of contractual clauses contained in reciprocal representation agreements entered into between collecting societies which are members of the International Confederation of Societies of Authors and Composers (CISAC). In this decision, the EU Commission has prohibited 24 European copyright collecting societies from restricting competition by limiting their ability to offer their services to authors and commercial users outside their domestic territory.¹⁶² Various corrective measures are imposed by this decision among which the obligation to stop prohibiting an author from freely choosing its collecting society or from moving to another collecting society (as this was imposed by 23 collecting societies, under the so-called “membership clause”) and the territorial restrictions under which collecting societies have granted to each other the right to administer their respective repertoire on a given territory on an exclusive basis which are also held as anti-competitive.¹⁶³ This decision, which essentially promotes

¹⁶¹ See the document “Monitoring of the 2005 Music Online Recommendation of February 7, 2008” (http://ec.europa.eu/internal_market/copyright/docs/management/monitoring-report_en.pdf [Accessed December 17, 2008]).

¹⁶² See the press release IP/08/1165 of July 16, 2008 at <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1165&format=HTML&aged=0&language=EN&guiLanguage=en> [Accessed December 17, 2008].

¹⁶³ For a more detailed presentation of this decision by the EU Commission, see the document “Antitrust: Commission prohibits practices which prevent European collecting societies offering choice to music authors and users—frequently asked questions”, ref. MEMO/08/511 of July 16, 2008, available at <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/08/511&format=HTML&aged=0&language=EN&guiLanguage=en> [Accessed December 17, 2008].

economic efficiency, has been immediately and severely criticised by CISAC.¹⁶⁴ As a result, it can be expected that this issue will continue to be intensively debated in Europe in the future.¹⁶⁵ On November 14, 2008, the Court of First Instance of the European Communities dismissed an application by several national copyright collecting societies to suspend the effect of the Commission decision of July 16, 2008 pending their appeal against it on the ground that the claimants had not shown the seriousness of the alleged financial damage that they would suffer as a result of such decision.¹⁶⁶

More globally, the ongoing debate about the appropriate structure of managing copyrights on musical works (and on other creative content) in an online environment shows the difficulties of finding an appropriate balance between globality and territoriality. On the one hand, what of course pleads for a global approach is the argument based on rationality and efficiency to set up a “one-stop shop” system for online uses which would be favourable to users and under which users could contract with an entity of their choice (a collecting society) and obtain from it a multi-territorial licence.

However, such an unrestricted “one-stop shop” approach also bears the risk that it may provoke a detrimental competition between collecting societies by stimulating a shopping for cheaper tariffs approach by users which may in turn threaten cultural diversity because of the cultural role played by local collecting societies for supporting local cultural expression. This risk would precisely plead for a territorial and local approach. This conflict shows that the solution to this issue should strive at striking a balance between these conflicting global and local approaches and between the potentially conflicting goals of economic efficiency and of cultural diversity.

¹⁶⁴ See the press release of July 16, 2008 : CISAC regrets the European Commission’s decision concerning reciprocal representation contracts, available at <http://www.cisac.org/CisacPortal/listeArticle.do?numArticle=900&method=afficherArticleInPortlet> [Accessed December 17, 2008]: “Loudly and clearly (but apparently to no avail), the creative community has told the Commission that the community remains deeply concerned about a Decision which claims to act in the name of creators but which in fact is being imposed on them against their express wishes. Time and time again, the creator has pleaded that the Commission’s proposed course of action will lead to a calamitous decline in artistic creation, cultural diversity and creators’ income . . .”

¹⁶⁵ For a critical approach against the EU Commission’s position, see Josef Drexler, *Collecting Societies and Competition Law* (available at http://www.ip.mpg.de/shared/data/pdf/drexler_-_crmos_and_competition.pdf [Accessed December 17, 2008], which is part of the collective book project: MPI Book Project: *Das Recht der Verwertungsgesellschaften in der Gemeinschaft*, p.31, at http://www.ip.mpg.de/w/w/de/pub/forschung/forschungsarbeit/recht_der_verwertungsgesellschaft/mppi_book_project_the_law_of_c_fm [Accessed December 17, 2008] (concluding his paper by stating that: “The European Union is in need of a system for multi-territorial and multi-repertoire licences with regard to online rights in music that corresponds to the concept of ‘creative competition’. The Commission Recommendation for the management of online rights in musical works does not adequately respond to these challenges. The ‘competition-oriented’ model advocated by the Recommendation is uniquely based on the concept of allocative efficiency, impedes equal access of all works to the system of collective administration, promotes the market value of mainstream music and thereby harms cultural diversity in the European Union.”

¹⁶⁶ *Stowarzyszenie Autorow ZAiKS v Commission Competition* (Case T-398/08 R); *Saveltajain Tekijanoikeustoimisto Teosto v Commission* (Case T-401/08 R); *GEMA v Commission Competition* (Case T-410/08 R); *Artisjus v Commission Competition* (Case T-411/08 R); and *Sacem v Commission* (Case T-422/08). R).

4. CONCLUSION

The analysis made above about the protection of trade secrets and of musical works has identified numerous legal factors which may impede or affect the cross-border exchange of these intellectual assets about which concluding comments must be made.

First, it is interesting to note that these factors of influence do not essentially relate to potential deficiencies or differences in the level of substantive protection of intellectual property rights. This appears particularly true for trade secrets for which these differences appear to have only a relatively minor impact on the cross-border exchange of trade secrets.

It indeed appears that other regulatory constraints can play a quite significant role such as, with respect to trade secrets, the procedural conditions which are imposed for importing or exporting trade secrets (in China) or for enforcing trade secrets misappropriation claims (i.e. obligation of publicity of court proceedings in Japan). The same comment can also apply to music with respect to the regulatory constraints relating to the collective management for the online distribution of musical works (in particular in Europe).

Secondly, legal hurdles and difficulties also result from the transnational nature of the situations which raises complex issues of private international law (with respect to jurisdiction, choice of law and enforcement of foreign judgments). From this perspective, a harmonisation of the rules of private international law could help avoiding or minimising the risks resulting from conflicting rules.

In this context, a step which could help creating the trust of the public and private players which is required in order to ensure an effective cross-border exchange of intellectual assets would be to foster and promote alternative dispute resolution methods (such as arbitration) for solving disputes arising in the context of the cross-border exchange of intellectual assets. The use of such methods could indeed help to overcome the reluctance of some players to authorise the use of their intellectual assets in a foreign jurisdiction by offering important advantages by comparison to traditional state court litigation (including the expertise and the independence of the dispute resolution body).

Thirdly, an important conclusion is that any potential global legal principles to be developed for the purpose of promoting the cross-border exchange of intellectual assets shall necessarily reflect a balance between the diverging interests of the stakeholders.¹⁶⁷

With respect to trade secrets, it can indeed be considered that a too stringent protection of trade secrets may be detrimental to the cross-border transfer of technology to the extent that it would prevent employees from changing jobs.¹⁶⁸ From this perspective,

¹⁶⁷ See Barton, "News Trends in Technology Transfer and their implications for national and international policy" (ICTS, February 2007), at p.22, available online at <http://www.iprsonline.org/resources/docs/Barton%20-%20New%20Trends%20Technology%20Transfer%200207.pdf> [Accessed December 16, 2008], stating that "a balance is essential".

¹⁶⁸ This balance of interests can be perceived in the case law of the Swiss Supreme Court; see Decision of June 21, 2007; ref. 4C.69/2007; see also Barton, "News Trends in Technology Transfer and their implications for national and international policy" (ICTS, February 2007), at p.31, available online at <http://www.iprsonline.org/resources/docs/Barton%20-%20New%20Trends%20Technology%20Transfer%200207.pdf> [Accessed December 16, 2008], promoting a balanced approach

trade secrets regulations should not prevent the cross-border flow of human knowledge and the free movement of brains. This aspect is particularly important when dealing with the “human resource spill over”¹⁶⁹ effect of conducting R & D activities in host countries. In this context, it is interesting to emphasise that conducting R & D activities may also contribute to “reverse technology transfer” which may thus be beneficial to the home country from which the technology initially flew to the host country.¹⁷⁰ By way of example, the Swiss-based multinational group Nestlé gained globally from the knowledge locally acquired from an R & D centre that it set up in Asia (in Singapore) for marketing products in Europe based on such gained knowledge.¹⁷¹ More generally, it is acknowledged that companies can benefit from operating R & D centres in foreign countries not only for adapting products to the local market (“absorptive capacity”) but also to use such local know-how for their global operations (“multiplicative capacity”).¹⁷²

The protection of trade secrets should however not be too reduced so that it can still be efficient enough in order to prevent and deter cases of misappropriation of trade secrets (as this is in any case required by art.39 TRIPS).

With respect to musical works, the need to find an appropriate balance is equally important even though it cannot be based on the same criteria as the ones used for trade secrets. The most critical aspect of this issue deals with the online exploitation of musical works and results from the tension between the expectations of the users (and from the market) to have an efficient one stop shop system for licensing musical content across borders on the one hand and the expectations of the creators of music and of the collecting societies to ensure the protection of cultural diversity on the other hand.

In this respect, a too liberal approach may be detrimental to local cultural expressions, as shown by the on-going discussion taking place in Europe with respect to the online distribution of music in which local collecting societies claim that an unrestricted one-stop shop system (which may well be quite efficient from an economics perspective) would prove counterproductive because it would threaten cultural diversity. From this perspective too, it appears that a system must necessarily be balanced in order to succeed.

and suggesting, as one issue to be considered for further international negotiations: “International arrangements guaranteeing that trade secret law not infringe the rights of employees to change jobs (including changing jobs internationally) or the rights of firms to reverse-engineer products, provided that the rights of the former employer or of the original designer of the product are respected”.

¹⁶⁹ On this issue, see the UNCTAD World Investment Report (2005), p.184.

¹⁷⁰ UNCTAD World Investment Report (2005), p.194.

¹⁷¹ See UNCTAD World Investment Report (2005), p.194:

“The R&D [i.e. the R & D centre that Nestlé set up in Singapore] also contributed to the expansion of the knowledge base of Nestlé’s global R&D network, relating to Asian cuisine and customer habits. For instance, when Nestlé’s R&D unit in Sweden developed the frozen vegetable product ‘Taste of Asia’, staff from Sweden went to Singapore to learn the cuisine. This product is now marketed all over Europe. Similarly, staff from the Singapore unit assisted in introducing Asian noodle production in Europe.”

¹⁷² See Oliver Gassmann and Marcus Matthias Keupp, “The internationalization of Western firms’ R&D in China”: <http://inderscience.metapress.com/app/home/contribution.asp?referrer=parent&backto=issue,2,6;journal,2,25;linkingpublicationresults,1:112371,1> [Accessed January 16, 2009].

What remains in any case is that a sufficient level of protection of intellectual property rights is required in order to promote and stimulate local creativity and innovativeness even—and perhaps particularly—in developing countries.¹⁷³

The need to adopt a balanced system also appears as critical in view of a potential new landscape which may reshape the cross-border flow of intellectual assets. At present, Switzerland is exporting its technology to foreign countries, which may have been reflected at the legal level by the fact that the Swiss legal environment has sometimes been considered as “licensor friendly”,¹⁷⁴ even though at the same time Switzerland generally imports music and is thus an importer of this type of intellectual assets. By contrast, China may generally be considered at present as a country importing intellectual assets. However, this may radically change at some point in the future at a time when China may be exporting intellectual assets (including technology and potentially music) on a very large scale.

If this were to happen, all nations would have an interest in defining and adopting reasonable and balanced principles relating to the cross-border exchange of intellectual assets which would not excessively protect the licensor’s or the licensee’s interests because of the potential interchangeability of their respective positions. In short, countries exporting intellectual assets today may be importing such assets in the future. This is one reason justifying why it would be appropriate to adopt a balanced and neutral approach which would strike a fair balance between the conflicting parties and interests (i.e. between an IP owner friendly and an IP user friendly approach). In that respect, it would appear appropriate that transnational disputes relating to cross-border exchange of intellectual assets shall be settled by independent dispute resolution bodies.¹⁷⁵

Fourthly, isolationism and protectionism are clearly not appropriate solutions to these complex issues. By way of example, and as emphasised in the literature, it would be counterproductive for a host country to adopt too protective technology import and export regulations:

“The importing countries, regardless of their stage of development, have legitimate interests in the application of their industrial property laws and transfer of technology

¹⁷³ See UNCTAD Creative Economy Report (2008), p.206:

“Current IPR legislation has not been able to avoid economic asymmetries. Therefore, efforts to enforce IPR regimes should ensure that the interests of artists and creators from developing countries are duly taken into account. Intellectual property should provide a stimulus to creators and entrepreneurs in the form of a tradable economic asset that is instrumental to enhancing the potential of the creative sector for development.

¹⁷⁴ See Soltysinski, “Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions” (1986) 196 *Recueil des cours de la Haye* 226, 346, noting that: “A Swiss arbitral tribunal forum seems to be the best choice from the point of view of a typical supplier of technology. Apart from the points discussed above, Swiss lawyers have great understanding of world trade and market economy values. Furthermore, Swiss statutory law and judicial precedents in the field of industrial property transactions offer guidelines how to solve many disputes arising out of transfer of technology transactions.”

¹⁷⁵ By way of example, the European Commission recommends in its document “Technology transfer to China: Guidance for businesses”, p.5 (http://www.china-iprhelpdesk.eu/media/docs/Tech_transfer_English.pdf [Accessed December 16, 2008]) to “include arbitration clauses with neutral tribunal location”.

regulations to acquisitions of technology from abroad. But the scope of such 'strong' mandatory rules of exclusive application ought to be reasonable. Indeed, when a developing country drastically limits the parties' autonomy in an effort to strengthen the bargaining position of its firms, it often achieves quite opposite effects: the isolation of the market and the overall higher costs of acquisition of technology.¹⁷⁶

Similarly, it would appear counterproductive, even though such risk exists, for a country to try to impose trade sanctions to other country because it would have allegedly adopted an unfair system for technology transfer.¹⁷⁷

Protectionism may also result from export control regulations which would be excessively and unnecessarily broad. In this context, national security interests could be invoked in order to adopt protective measures even though such interests should not be overextended,¹⁷⁸ whereby the limits may sometimes be difficult to draw.¹⁷⁹

Another question is obviously how such approach could be politically implemented.¹⁸⁰ In this context and in view of the potential difficulties of conducting multilateral negotiations, bilateral discussions could potentially offer an appropriate forum for establishing and implementing such principles which may then be adopted on a broader scale.¹⁸¹

¹⁷⁶ See Soltysinski, "Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions" (1986) 196 *Recueil des cours de la Haye* 226, 354.

¹⁷⁷ See Barton, "News Trends in Technology Transfer and their implications for national and international policy" (ICTS, February 2007), at p.28, available online at <http://www.iprsonline.org/resources/docs/Barton%20-%20New%20Trends%20Technology%20Transfer%200207.pdf> [Accessed December 16, 2008]: "a future possible problem is that developed-world fears of reverse engineering may lead to trade sanctions or efforts to bar from developed-world markets developing-world products based on such imitation"; on the potential sanctions under US law, see Nicolas S. Gikkas, "International Licensing of Intellectual Property: The Promise and the Peril" (1996) 1(1) *Journal of Technology Law and Policy*, available online at <http://grove.ufl.edu/techlaw/vol1/gikkas.html#g8b2> [Accessed December 17, 2008].

¹⁷⁸ See Barton, "News Trends in Technology Transfer and their implications for national and international policy" (ICTS, February 2007), at pp.32-33, available online at <http://www.iprsonline.org/resources/docs/Barton%20-%20New%20Trends%20Technology%20Transfer%200207.pdf> [Accessed December 16, 2008] (noting that "[t]here are certainly appropriate exceptions to protect national security and probably some appropriate exceptions to make it easier for developing nations to build technology based industry, but these should be against a background of great freedom of flow").

¹⁷⁹ See the case of a Chinese individual who has been subject to criminal sanctions in the US for exporting sensitive military technologies to China which was the first US case for illegal exports of military-related source code, i.e. 3D simulation software used to train military fighter pilots: <http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2007/08/03/BAMRRC9OB3.DTL> [Accessed December 17, 2008].

¹⁸⁰ See Barton, "News Trends in Technology Transfer and their implications for national and international policy" (ICTS, February 2007), at p.31, available online at <http://www.iprsonline.org/resources/docs/Barton%20-%20New%20Trends%20Technology%20Transfer%200207.pdf> [Accessed December 16, 2008], stating that "[t]here is an important strategy issue as to whether it is best to raise this group of issues diplomatically or in developed-world judicial proceedings, or simply to proceed with local legislation that reflects the principles".

¹⁸¹ It being noted that this approach should not necessarily lead to an increase of the TRIPS standards in what is generally described as the "TRIPS-plus" system, which is perceived as a method used by developed countries or regions (such as the US and the European Union) to impose standards of protection which go beyond the TRIPS standards and are automatically applicable for the benefit of third parties based on the application of the most favoured nation clause contained in the TRIPS

Fifthly, a key aspect is to keep in mind that legal issues are obviously not the only factors to be taken into account when trying to adopt and implement appropriate policies for promoting the cross-border exchange of intellectual assets. Promoting the cross-border exchange of intellectual assets (in particular music and trade secrets) is indeed clearly not only about adopting, implementing and enforcing laws, and most specifically intellectual property laws. What is thus required is to adopt a coherent and multidisciplinary policy setting out the ground for the promotion of the creation and of the inbound and outbound transfer of intellectual assets. This also requires that the impact of intellectual property protection shall not only be analysed and measured from a legal perspective, but rather from a broader interdisciplinary perspective, as this has been particularly and convincingly called for with respect to China.¹⁸² As put in the UNCTAD World Investment Report (2005) on Transnational Corporations and the Internationalisation of R&D¹⁸³:

“The emphasis on policy coherence may be one of the most striking lessons learned from those developing countries that are now emerging as more important nodes in the knowledge networks of TNCs [transnational corporations]. In most of these countries, the starting point has been a long-term vision of how to move the economy towards higher value-added and knowledge-based activities. The success of some Asian economies is no coincidence; it is the outcome of coherent and targeted government policies aimed at strengthening the overall framework for innovation and knowledge inflows. In some form (and to varying degrees), they have actively sought to attract technology, know-how, people and capital from abroad. They have invested strategically in human resources, typically with a strong focus on science and engineering; invested in infrastructure development for R&D (such as science parks, public R&D labs, incubators); used performance requirements and incentives as part of the overall strategy to attract FDI in targeted activities; and strategically implemented IPR protection policies.”¹⁸⁴

It should be reminded in this respect that, from an economics perspective, it is unclear (based on the scientific literature) whether the level and efficiency of the protection of intellectual property rights in a given country (the host country) significantly affects the decision of foreign companies to invest in that country (foreign direct

Agreement (art.4); see, for instance, Jakkrit Kuanpoth, “TRIPS-Plus Intellectual Property Rules: Impact on Thailand’s Public Health” (2006) 9(5) *Journal of World Intellectual Property* 573.

¹⁸² See Peter K. Yu, “Intellectual Property, Economic Development, and the China Puzzle” in Daniel J. Gervais (ed.), *Intellectual Property, Trade and Development* (2007), p.220, who concludes his article by stating that “hopefully, this chapter and the larger volume, will convince policy makers that intellectual property protection should be measured not only in legal terms, but also in socio-economic ones. Although intellectual property protection may not be a prerequisite for economic development and growth, it is an integral and essential part of a complex innovation system that serves as a catalyst for economic development. The sooner the Chinese policy makers understand the dynamics of this complex innovation system, the quicker they can harness the system to promote the country’s economic development”.

¹⁸³ See http://www.unctad.org/en/docs/wir2005_en.pdf [Accessed December 17, 2008].

¹⁸⁴ See Overview at p.30 (XXX).

investment for instance for R & D purposes).¹⁸⁵ This was particularly acknowledged by UNCTAD in its World Investment Report (2005) on Transnational Corporations and the Internationalization of R&D¹⁸⁶ in which it is stated that:

“IPR regimes are often mentioned as a factor that might influence the location of TNC R&D. However, the evidence is mixed. Surveys suggest that the role of IPR regimes in attracting FDI in general may be limited, but that it is an important factor for R&D-related FDI. Protection of intellectual property generally improves the environment for innovative R&D, but its role varies by industry [ref. omitted]. For industries in which technologies are easy to imitate, IPR protection may be essential for attracting international R&D; for other industries it may be a less important factor.”¹⁸⁷

As a result, the adoption of appropriate and balanced intellectual property policies with respect to trade secrets and music should be one among various measures which could be implemented at the international level in order to promote and foster the local creation and the cross-border exchange of intellectual assets between developing and developed countries.

In this respect, the work of UNCTAD on the “creative economy” can be viewed as an important contribution to the adoption of global policies and measures to reach this end as evidenced by the recent “Creative Economy Report 2008”,¹⁸⁸ the main

¹⁸⁵ See the analysis (with reference to economics literature) made by Yu, “Intellectual Property, Economic Development, and the China Puzzle” in *Intellectual Property, Trade and Development* (2007), pp.176–180 concluding (at p.180) by noting that “the relationship between the strength of intellectual property protection and FDI remains theoretically ambiguous”; for a positive answer, see Derek Bosworth and Deli Yang, “Intellectual property law, technology flow and licensing opportunities in the People’s Republic of China” (2000) 9 *International Business Review* 453, 476, noting that: “This paper argues that IP laws and their enforcement play a crucial role in the process of economic development. Without such laws, the incentive for trade and FDI may be severely reduced, insofar as the associated product can be copied by the importing or host nation. The potential barriers that an absence of appropriate IP laws and weak enforcement impose on technology transfer through licensing and FDI are even more important.”

For a relatively negative answer, see Kegang You and Seiichi Katayama, “Intellectual Property Rights Protection And Imitation: An Empirical Examination Of Japanese FDI In China” (2005) 10(5) *Pacific Economic Review* 591 concluding that: “from our empirical results [relating to investments made by Japanese companies in China and based on an analysis limited to patent and trademark rights], there is not strong evidence that IPR is a significant determinant of FDI. The results in table 5 indicate that patents and imitation do not affect the profitability of the Chinese subsidiaries of Japanese firms at a high level of substance. We would also suggest that not IPR, but rather other factors such as market competition, could be significant factors in terms of FDI profitability”.

See also Beata Smarzowska Javorcik, “The composition of foreign direct investment and protection of intellectual property rights: Evidence from transition economies” (2004) 48(1) *European Economic Review* 39; see also Keith E. Maskus, “The Role of Intellectual Property Rights in Encouraging Foreign Direct Investment and Technology Transfer” (1998) 9 *Duke Journal of Comparative and International Law* 109, available online at <http://siteresources.worldbank.org/INTRANETTRADE/Resources/maskus2.pdf> [Accessed December 17, 2008].

¹⁸⁶ See http://www.unctad.org/en/docs/wir2005_en.pdf [Accessed December 17, 2008].

¹⁸⁷ http://www.unctad.org/en/docs/wir2005_en.pdf, p.164 [Accessed December 17, 2008].

¹⁸⁸ See the Creative Economy Report: “The challenge of assessing the creative economy towards informed policy-making” (2008), available at: http://www.unctad.org/en/docs/ditc20082cer_en.pdf [Accessed January 16, 2009].

purpose of which “was to identify assessment tools for measuring the economic impact of the creative economy at the national level, with a view to assisting governments to formulate policies to enhance creative capacities on the basis of evidence-based information”,¹⁸⁹ while the ultimate goal of which “was to sensitize governments to the importance of the creative economy for generating revenues, employment and trade”.¹⁹⁰

On this basis, the final question is to define what would be the optimal regulatory framework for promoting the cross-border exchange of music and of trade secrets. In that respect, an unreflective increase of the level of substantive IP protection should not be the driving factor because other regulatory elements are also quite critical. In any case, one critical element and difficulty in this assessment is to adopt a balanced approach between the protection of *local* interests and the taking into account of *global* needs. Even though globalisation is a phenomenon which cannot be avoided, local interests must not be sacrificed at all cost for the purpose of removing barriers to the free flow and exchange of intellectual assets. This is particularly important when dealing with culturally relevant intellectual assets such as music for which local interests would plead for the maintenance of the presently existing collecting system for purpose of protecting cultural diversity.¹⁹¹ But local interests are not limited to the issue of music because even for trade secrets, local constraints (which may even be anchored in the Constitution)¹⁹² can require that the scope of the protection of trade secrets shall be appropriately adapted to the local interests (provided that an effective protection shall not be jeopardised by such constraints). However, local interests must not always prevail over global needs, because there is a global need and interest to ensure an efficient cross-border flow of intellectual assets. These needs could be met by adopting a global regulatory framework which shall ensure an appropriate protection of intellectual assets and promote the cross-border transfer and use of intellectual assets, without threatening the cross-border flow of human resources and technology for the benefit of creative entrepreneurs and of industries, and for society as a whole. This appears particularly important at a time when the regulatory framework of countries are compared for the purpose of assessing their ability to attract foreign investments and foreign trade as shown in the recently published “Global Enabling Trade Report 2008” released by the World Economic Forum in Geneva (WEF) the goal of which is to present “a cross-country analysis of the large number of measures facilitating trade”¹⁹³

¹⁸⁹ Creative Economy Report: “The challenge of assessing the creative economy towards informed policy-making” (2008), p.209, available at <http://www.unctad.org/Templates/Webflyer.asp?intItemID=4494>.

¹⁹⁰ Creative Economy Report: “The challenge of assessing the creative economy towards informed policy-making” (2008), p.209, available at <http://www.unctad.org/Templates/Webflyer.asp?intItemID=4494>.

¹⁹¹ In this respect, copyright collective societies appear to still have an important task in the digital age; on this issue, see the collective book Christoph Beat Graber (ed.), *Digital Rights Management: The End of Collecting Societies?* (2005); see in general the Swiss government sponsored research project “e-diversity” relating to the analysis of The Legal Protection of Cultural Diversity in a Digital Networked Environment, available online at <http://www.nccr-trade.org/ip-7/ip-7—ediversity.html> [Accessed December 17, 2008].

¹⁹² Such as is the case of the regulations in Japan requiring the publicity of court proceedings which have caused some concern for the enforcement of trade secrets misappropriation claims.

¹⁹³ Available at <http://www.weforum.org/en/initiatives/gcp/GlobalEnablingTradeReport/index.htm> [Accessed December 17, 2008] (published June 18, 2008).

by analysing (among other factors) the regulatory environment existing in the countries and the business impact of rules regulating foreign direct investment.¹⁹⁴ Such global needs could impose that nations shall give up some of their powers¹⁹⁵ in exchange of the social economic and cultural gains that will flow from an increased cross-border exchange of intellectual assets.

¹⁹⁴ According to the Enabling Trade Index 2008, Switzerland ranks 9, Japan 13 and China 48 (http://www.weforum.org/pdf/GETR08/index_rankings.pdf [Accessed December 17, 2008]).

¹⁹⁵ Such as for instance by reducing or limiting parts of their jurisdictional powers for the benefit of (foreign) dispute resolution bodies chosen by the parties to the cross-border exchange of intellectual assets and by removing overly burdensome regulatory barriers to such exchange (such as technology import/export regulations).