

Know-how provider's right to claim damages for non-pecuniary loss in light of the legal nature of know-how

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Abstract

The know-how contract is one of the most important means for transferring and developing technology. It is crucial to find out whether the parties of know-how contract have a right to claim damages for non-pecuniary loss in light of the legal nature of know-how. In this article, I begin by defining the know-how contracts and in particular I will analyze the main obligations of the parties. Secondly, I will deal with the definition and the legal nature of know-how, since considerable uncertainty exists as to the degree or type of protection regarding the legal nature of know-how. There are different opinions put forward, which defines the legal nature of know-how as a property, an intangible asset, a monopoly of fact and a personality right. Finally, and on the basis of the conclusion reached under the previous section, I will discuss whether it is possible for know-how provider to claim damages for non-pecuniary loss.

Keywords: know-how, legal nature of know-how, right to claim damages for non-pecuniary loss in know-how contracts, the parties obligations arising from know-how contracts

JEL Classification: K22, K33.

1. The definition of know-how contracts and parties' obligations arising from this contract

1.1. The definition of know-how contracts

The know-how contract, is a contract, whereby one of the parties (know-how provider) undertakes to declare its know-how and provide the utilization of it, whereas the other party (know-how recipient) undertakes to pay the contractual price². In this sense, know-how contracts regulate the communication of know-how from the provider to the recipient³.

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² Kirca, Çiğdem, "Know-How Sözleşmesinin Hukuki Niteliği", Ali Bozer'e Armağan, Ankara, 1998, p. 251-252; Erbay, İsmail, *Know-How Sözleşmesi*, Ankara, 2002; Koller, Beat, *Der know-how-Vertrag nach schweizerischem Recht – unter besonderer Berücksichtigung der Leistungsstörungen und der Vertragsbeendigung*, Zürich, 1979, p. 25; Pfaff, Dieter, "Der know-How-Vertrag im bürgerlichen Recht", BB 1974, p. 565.

³ Correa, Carlos M., "Legal Nature and Contractual Conditions in Know-How Transactions", Ga. J. Int'l & Comp. L. Vol. 11:3, Y. 1981, p. 471. <http://digitalcommonp.law.uga.edu/cgi/viewcontent.cgi?article=1958&context=gjicl> (last accessed: 30.10.2017).

Through know-how contracts, a secret or a non-secret know-how can be transferred between the parties. If the contract consists of a secret know-how, the know-how provider will only disclose its secret knowledge or experience that constitutes know-how. On the other hand, if non-secret know-how is being transferred with the contract, only a systematic access to know-how will be provided to know-how recipient⁴.

It should be accentuated that the know-how recipient does not have any monopoly of know-how or exclusivity in its use. Therefore, it does not have any right to prevent the utilization of know-how by know-how provider or third parties⁵. Likewise, the know-how recipient does not have a right to disclose this information to the third parties. Due to these reasons, although know-how contracts are described as license contracts as a common practice⁶, the legal nature of know-how contracts does not constitute license contracts.

1.2. Parties' obligations arising from know-how contracts

1.2.1. Obligations of know-how provider

In this contract, the primary obligations of know-how provider are the obligation of providing the know-how to the other party and obligation of not to preclude the know-how recipient from the utilization of this know-how⁷. In this sense, the contractual obligations of know-how provider will not be performed at the time it declares and provides the know-how. On the contrary, for the fulfillment of this obligation properly, it has to be supported with other obligations, such as obligation of not to preclude know-how recipient from the utilization of know-how and obligation of providing the necessary guidance for the utilization of know-how in the most correct way⁸.

1.2.2. Obligations of know-how recipient

The main obligation of know-how recipient is the obligation of paying the contractual price⁹. This price can be determined by using the systems of piece-rate or overall rate¹⁰.

⁴ Correa, p. 471.

⁵ Correa, p. 471.

⁶ Correa, p. 471.

⁷ STUMPF, Herbert, *Der Know-How-Vertrag*, 2. Auflage, Heidelberg, 1971, Rn. 169; AKYOL, Şener, *Borçlar Hukuku Özel Borç İlişkileri, Know-How, Management, Joint Venture ve Büyük Çaplı İnşaat Sözleşmeleri*, II. Fasikül, İstanbul, 1997, p. 9 ff.; Koller, p. 52, 63; Kirca, p. 252; Erbay, p. 160 ff.

⁸ Koller, p. 63; Erbay, p. 160; Kirca, p. 252.

⁹ Koller, p. 86 ff.; Stumpf, Rn. 92 ff.; Kirca, p. 252; Erbay, p. 210 ff. ERBAY accepts that utilizing the know-how is also one of the know-how receiver's main obligations. See Erbay, p. 221, 226. For similar view see Stumpf, Rn. 135.

¹⁰ Erbay, p. 212 ff.; Kirca, p. 252; Stumpf, Rn. 95 ff.

It was underlined by the doctrine¹¹ that in order to consider know-how recipient liable from the confidentiality obligation, it shall be foreseen in the contract. However, according to my opinion, if the contract consists of a secret know-how, even if it was not explicitly agreed between the parties, it should be accepted that know-how recipient has such an obligation, as the information or the experience itself has the nature of “secret”¹². But, it should be emphasized that confidentiality obligations should attach only to such items of knowledge that the supplier has specified as “secret”.

2. Definition and legal nature of know-how

2.1. Definition of know-how

Know-how, constituting the subject matter of the contract¹³, is firstly used in the Anglo-American Law System as especially newly developed production and industrial techniques were desired to be used by the other industrialists after the industrial revolution in 19th century¹⁴. Then, it was improved by the practice¹⁵, became crucial after the II. World War¹⁶ and gained admission in Civil Law System¹⁷, since after the scientific and technological developments, the disclosure of information gained importance in national and international business life¹⁸.

There is no consensus on the definition of know-how¹⁹. It is a most controversial issue. Having combined the opinions²⁰ put forward, know-how is an

¹¹ Erbay, p. 229; Correa, p. 482-483: “*In principle, the recipient's duty not to disclose the secret know-how to third parties must be expressly provided for in the contract. There is no reason to presume, in the absence of an explicit stipulation or legal provision, that an obligation of confidentiality exists.*”

¹² For similar view see Stumpf, Rn. 254.

¹³ The term of know-how, is etymologically coming from the word of “skill”. The “borders” of this terms is interpreted as wide as possible, so that all information and experiences in technical, sportive and cultural fields can be included in its scope. Saumweber, Wolfgang, *Der Schutz von Know-How im deutschen und amerikanischen Recht*, München, 1978, p. 7; Şehirali, Feyzan Hayal, *Schutz des Know-How nach türkischem, deutschem und europaeischem Recht*, Köln, Berlin, München, 2004, p. 11; Kirca, p. 243.

¹⁴ Saumweber, p. 6 ff.; Şehirali, p. 11; Stumpf, Rn. 4; Kirca, p. 243.

¹⁵ Böhme, Werner, *Die Besteuerung des Know-How*, Berlin, 1967, p. 12; Ortan, Necip A., “*Knov-Hov ve Hukuken Korunması Sorunu*”, ABD, 1980, N. 4, p. 467; Şehirali, p. 11; Stumpf, Rn. 4; Kirca, p. 243.

¹⁶ Şehirali, p. 11.

¹⁷ Erbay, p. 69.

¹⁸ Şehirali, p. 5

¹⁹ Blatter, Anton-Willi, *Der Schutz des Know-How im Arbeitsvertragsrecht insbesondere die Auslegung von Art. 321A IVOR*, Bern, 1982, p. 3 ff.; Saumweber, p. 78; Correa, p. 457; Erbaş, p. 69 ff.; Şehirali, p. 10 ff.; Koller, p. 7; Ortan, p. 467.

²⁰ According to the first opinion, a know-how is a “trade secret”. Second opinion puts forward that, as an information does not have to be a secret in order to constitute a know-how, secrecy is not a decisive element while defining know-how. In addition, some authors have a tendency of limiting the concept of know-how to technical know-how, whereas others include the commercial information or personal technical skills and experience. For a detailed information on the definition of know-how, please see Troller, Alois, “*İsviçre Hukukunda Know-How'ın Korunması*” (Çev. Ergun Özsunay), Batider, 1973, Vol. VII, p. 397 ff.; Saumweber, p. 7 ff., 17 ff.; Stumpf, Rn. 5 ff.; Koller, p. 7 ff.; Correa, p. 457; Erbay, p. 76 ff.; Şehirali, p. 10 ff.; Ortan, p. 468 ff.

information or experience, which has most commonly a nature of secret, about technical, organizational, operational or administrative issues that is used in commercial or economical activities and is not protected by one of the industrial property rights²¹.

2.2. Legal nature of know-how

2.2.1. Know-how as property

The opinion adopting the existence of property rights in know-how is interpreting the concept of know-how in light of United States law. Although a minority rejects such a view, the majority of US lawyers are accepting this theory²². It should be underlined that, the concept of property in Anglo-American Law System is totally have to be distinguished from the same in Civil Law System. Firstly, the *numerus clausus* principal does not have any effect on property concept in Anglo-American Law System. In other words, the judges have a freedom while recognizing new types of property. Secondly, property has a more imprecise appearance in this law system than it has in civil law²³.

2.2.2. Know-how as intangible assets (*Immaterielle Vermögenswerte*)

According to the second opinion based on theory of intangibles²⁴, know-how is a legally protected entity, as there is a legally protected right on the secret information or experiences having a characteristic of know-how. And this right can be classified as intangibles, although it was not foreseen in the regulations. The author upholding this opinion claims that an asset does not have to be foreseen explicitly in the regulations; on the contrary, the right of property protected under Art. 14 of German Constitution take other assets into its scope, which has an economic value and a possibility of being an asset. As know-how, which is found in the scope of trade secrets, has an economic value, it can be qualified as an intangible asset and therefore can be protected as an absolute right. However, this opinion is criticized by the majority of the doctrine²⁵. Because, the criticized opinion categorizes the know-how in intangible assets and these assets can only be protected as an absolute right if they are foreseen in legislation under Turkish-Swiss Law System, due to the *numerus clausus* principle.

²¹ Troller, Alois, *Immaterialgüterrecht, Patentrecht, Markenrecht, Muster-Modellrecht, Urheberrecht, Wettbewerbsrecht, Bd. I*, völlig überarbeitete Auflage, Basel und Frankfurt a. M., 1983, p. 421; Stumpf, Rn. 10; Koller, p. 13; Saumweber, p. 24; Troller, p. 398; Erbay, p. 78; Kirca, p. 245.

²² Dessemontet, François, *The Legal Protection of Know-How in the United States of America*, 2nd Revised Edition, Geneva, South Hackensack N.J., 1976, p. 323-324.

²³ Dessemontet, p. 327-328.

²⁴ Pfister, Bernhard, *Das technische Geheimnis "Know-how" als Vermögensrecht*, München, 1974, p. 40 ff.; For detailed information about this view see Kirca, p. 248; Erbay, p. 95.

²⁵ Koller, p. 19-22; Stumpf, p. 34-35; Böhme, p. 26 ff.; Troller, p. 108; Blatter, p. 45; Pfaff, p. 567; Kirca, p. 249.

2.2.3. Know-how as a monopoly of fact

The third view in doctrine²⁶ rejects the theory of the existence of absolute right in know-how and adopts that know-how is a mere factual situation eventually subject to the contractual conditions laid down by the parties. In this sense, the person having know-how does not have any right on it, he or she is only the factual possessor of this information or experiences. The authors adopting this opinion²⁷ additionally stated that it is unfair to protect the possessor of know-how as much as the possessor of patent right. As a reason to this statement they put forward that the purpose of the protection of patent rights is to be made an innovation public by registering in the patent rolls. In addition, they also underlined that if the know-how were protected as much as patent, people would refrain from obtaining patent right due to the waste of time and economic encumbrances during the application process. Therefore, these authors accept that know-how can only be a subject, under certain circumstances, to the indirect protection conferred by unfair competition law.

2.2.4. Know-how as a personal right

Although it was put forward that secret know-how is a factual situation or an intangible as it is an asset of the enterprise, according to my opinion, having an economical value does not change the fact that it is basically a secret and found in a person's privacy. Just as a natural person's secrets are found in his or her privacy, all secrets including the ones having an economical value of legal entity should also be interpreted in the scope of the same and its personality rights. Forasmuch as, in contradistinction to patent right²⁸ and other industrial property rights, under the know-how contracts, know-how receiver has only the right of the utilization of know-how and know-how provider does not transfer this information or experience,

²⁶ Koller, p. 19-22; Stumpf, p. 34-35; Böhme, p. 26 ff.; Troller, p. 108; Blatter, p. 45; Pfaff, P. 567; Kirca, p. 249; Erbay, p. 96-98.

²⁷ Pfaff, p. 567; Kirca, p. 249; Honsell, p. 46. The author stated that if the know-how is protected under the personality rights or tort law principles, nobody will bear the compelling application process of patent right and everybody will prefer the continuous protection rather than 18-year protection of patent right. However, only the concerns about a legal institution should not limit the other institution's scope. Other than that, the purposes of these institutions are also different. Moreover, a trade secret being a subject to a patent right will not remain as a secret after time limit ends. However, the innovator may have a desire to protect his or her innovation after this time limit.

²⁸ According to my opinion, the view putting forward that protection of know-how possessor would make people refraining from obtaining patent right due to the waste of time and economic encumbrances during the application process is inexact. Because persons' purposes of generating information and experiences in technical, administrative, organizational fields are different. Some of them may prefer to obtain patent right after generating these information or experiences as they seek to transfer them by giving licenses and attain economic advantage; whereas others may have the aim of keeping these information or experiences only for themselves and giving the right of usage by disclosing them. As a result, although a person has a right to utilize these information or experiences in the frame of a know-how contract, these elements are still under the possession of the generator of this know-how. However, the same principle will not be applicable for the innovations protected by the patent.

it only discloses its secret or non-secret know-how. By permitting only the utilization of a secret know-how under a contract, it will not lose its nature of "secret". Concordantly, it should be emphasized that, a know-how contract, in which an enterprise permits another one to utilize its secret know-how, cannot be technically distinguished from a contract, between a psychiatrist, who wants to write a book and explain his or her patient's diseases, lives and experiences, and an old patient of him or her, having the subject of the utilization of patient's disease, life and experiences, in other words his or her secrets, under the condition of changing the treatment process, patient's name and the places in order to swallow, who that patient is. In both situations, an element having the nature of a secret is made the subject of the agreement and one of the parties has a right to utilize this element. In addition, in both situations, the party disclosing this information or experiences is expecting from the other party not to share this information or experiences with third persons. A person's sharing about his or her private life, including his or her disease, and his or her permit for utilization of them by the psychiatrist providing that he or she shall stay unidentifiable, in other words protecting these information's nature of secret, will not exclude these secrets from the scope of his or her personality rights. Parallely, the same approach should be adopted for the contracts having the subject of secret know-how. Therefore, in my opinion secret know-how should be evaluated in the enterprise's privacy and if this enterprise is a legal entity, its know-how should be protected as a personality right²⁹.

3. Right to claim non-pecuniary damages arising from know-how contracts

Know-how can be a subject to the protection conferred by unfair competition law. *Numerus clausus* principle is not applied to the situations constituting unfair competition. As it is possible to claim damages for non-pecuniary loss under unfair competition law and since only a violation of personality rights is sufficient for a person to suffer a non-pecuniary damage, the person, whose know-how is unlawfully possessed, in other words, whose privacy is unlawfully infringed, may claim damages for non-pecuniary loss.

Under a know-how contract, one of the most important obligations of know-how receiver is the confidentiality obligation, as the element it is provided with its utilization is a secret. In fact, it is adopted by the majority of the doctrine that this obligation of know-how receiver lasts after the expiration of the contract³⁰.

²⁹ For a similar view see Druey, Jean Nicholas, "*Das Fabrikationsgeheimnis – faktisches Gut oder Rechtsgut*", ZSR, Bd. 92, 1973, p. 464 ff.

³⁰ Stumpf, Lizenzvertrag, Rn. 221; Erbay, s. 229. For the controversial opinions on the duration of confidentiality obligation please see. Correa, p. 485-486.

4. Conclusion

The know-how contract, is a contract, whereby one of the parties undertakes to disclose its know-how, whereas the other party undertakes to pay the contractual price. In this contract, know-how provider's obligations of providing the know-how to the other party and not to preclude the know-how recipient from the utilization of this know-how; and know-how receiver's obligation of paying the contractual price and its confidentiality obligation are of the essence.

The definition of know-how has been the one of the most controversial issues. Having combined several definitions³¹ made, know-how is an information or experience, which has most commonly a nature of secret, about technical, organizational, operational or administrative issues that is used in commercial or economical activities and is not protected by one of the industrial property rights.

An analysis of the legal nature of know-how is essential to comprehend whether it is possible to claim damages for non-pecuniary for the parties of this contract. Four different opinions were upheld for defining the legal nature of know-how. For instance, some authors adopt the existence of property rights in know-how, whereas some others defines know-how as an intangible asset. The third view qualifies know-how as a monopoly of fact, while the fourth one, which I agree, accepts that the secret know-how should be accepted in the frame of personality rights, since by permitting only the utilization of a secret know-how under a contract will not lose its nature of "secret".

Know-how can be a subject to the protection conferred by unfair competition law. As it is possible to claim damages for non-pecuniary loss under unfair competition law and since only a violation of personality rights is sufficient for a person to suffer a non-pecuniary damage, the person, whose know-how is unlawfully possessed, in other words, whose privacy is unlawfully infringed, may claim damages for non-pecuniary loss.

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³¹ According to the first opinion, a know-how is a "trade secret". Second opinion puts forward that, as an information does not have to be a secret in order to constitute a know-how, secrecy is not a decisive element while defining know-how. In addition, some authors have a tendency of limiting the concept of know-how to technical know-how, whereas others include the commercial information or personal technical skills and experience. For a detailed information on the definition of know-how, please see TROLLER, Alois, "İsviçre Hukukunda Know-How'ın Korunması" (Çev. Ergun Özsunay), Batider, 1973, Vol. VII, p. 397 ff.; Saumweber, p. 7 ff., 17 ff.; Stumpf, Rn. 5 ff.; Koller, p. 7 ff.; Correa, p. 457; Erbay, p. 76 ff.; Şehirali, p. 10 ff.; Ortan, p. 468 ff.

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