Wigley & Company

BARRISTERS and SOLICITORS

EXPORTING TECHNOLOGY: REDUCING LEGAL AND DOLLAR RISK

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International contracts in the technology area are often difficult to handle because it will be too difficult or complicated to get offshore legal advice and special issues arise. We take a practical approach to the risks and solutions in this area.

In a perfect world vendors will cover all the bases and get detailed contracts legally vetted for each target market, but often that is not practical. Risk must be balanced with practical and commercial reality. Some basic steps will minimise that risk. Perhaps get specific advice in one or two countries but not others. Rely on specialist New Zealand lawyers to minimise international risk. They often cost much less money anyway than overseas lawyers.

Technology exporters want to minimise offshore risk, but the high cost of obtaining legal advice in all target markets means tailoring contracts to every country is often impractical. Taking an 80/20 approach, some risk is taken.

So what can be done to minimise that risk? And when should an exporter go to lawyers in a target country?

In countries with high sales value and/or high dollar risk, local legal advice should be obtained. The tips that follow will help avoid but not completely eliminate exposure.

Internationally, parties can choose the country's law that will govern their contract. Saying something in a contract like "*This contract is governed by New Zealand law*" will usually work. A Court in New York, for example, would apply New Zealand law on most issues. In this way, many of the contract terms suitable in New Zealand also apply offshore.

It's convenient to use New Zealand law for offshore sales, but the marketplace may dictate that the New Zealand supplier use the law of another country. Common throughout the technology world is the adoption of a USA state's law - like Australia, look at the state not the country as a whole. Two frequent choices are the states of Delaware, a haven for US-based companies, and New York, chosen often in telecommunications contracts because of its well-developed laws in this area.

While the law chosen by the parties often applies, sometimes another country's law will override anyway as there could be legislation specific to the technology in question. Examples include:

- **Legislation designed to protect retail consumers**. Retail consumers are not usually the target of New Zealand's business-to-business exporters, but there are traps. Take for example, Australian consumer protection laws such as their Trade Practices Act. That Act can override an exporter's efforts to limit liabilities in even multi-million dollar sales, unless particular words are used which fit with the legislation.

Similarly in the UK the courts decided ICL was potentially exposed in a large commercial project and couldn't rely on their limitation of liability under their Unfair Contract Terms Act.

Limiting a vendor's liability will always be a key driver for technology contracts. Exposure for loss of profit and other financial claims is not sustainable for many vendors. The best clause can unexpectedly be eroded by failure to cover off on offshore statutory liability.

An international contract can be drafted to minimise this risk generically, and many exporters would be prepared to take the risk beyond that point. Sometimes the high level of sales and risk calls for specific legal advice and targeted drafting.

- **Intellectual property**. This includes statutory rights such as copyright, patents and trademarks which are usually governed by the law of the target country, not by the contract. Optimally dealing with protection of intellectual property can make all the difference between success and failure. Great technology can be protected so the vendor prospers - or it can be pirated and others win.

  A well-drafted contract can effectively deal with some issues, such as an obligation to keep information confidential and also confirmation of who holds copyright. But it won't always help with patents, for example.

  In many ways intellectual property is an issue separate from the sales contract. After all, the intellectual property rights are designed to protect the vendor not only against purchasers but also others.

  It's often important to consider not only the rights that happen automatically, such as copyright. Look at potential protection under the much stronger patent regime, where the developer/supplier takes steps to register its rights, perhaps in many countries. Increasingly, that regime is applying to newly developed software. Take special care to get advice early as it's usually too late to seek a patent after commercial rollout, trials, or other steps early in the process. Many suppliers unwittingly lose their rights.

  It's important to talk to someone expert on the particular technology and legal issues. Registering intellectual property protection internationally can be expensive, but there are ways to spend less and get reduced protection. Initial advice – to get an idea of what's involved - should not be expensive.

  New Zealand suppliers can be faced with the dilemma of whether to spend to protect their product, not knowing whether it will fly and become a killer app, or hold back and risk others picking up the technology unimpeded by legal recourse.

There are other things for suppliers to consider such as international tax issues and payment methods - it can be very expensive to sue to recover debt in many countries.

Focus on how the international contract should be "signed up". Generally for these sorts of business to business contracts on-line clicking-accept is too dangerous. That's a pity because click-accept is so customer-focussed and convenient.

Many countries in theory accept on-line contracts of this type, but the real problem is proving that someone sufficiently authorised on behalf of the buyer has click-accepted so that the buyer is legally bound. Often it will be particularly important to ensure that a contract is validly in place to cover issues such as limitation of liability. It is too risky to leave this to chance in an on-line click-accept contract.

Things will change as techniques like digital signatures become more widely used, but until then it's advisable to play safe despite the extra hassle.

Ideally a hard copy contract should be signed and faxed back to the vendor. In some countries, however, a fax may not be legally valid, so an even safer course is to get the signed original.

Sometimes there will be enough certainty and low risk for the deal to be completed in an exchange of e-mails. Depending on the circumstances there is some risk in that. However, commercial reality is that many deals are being concluded in this way so it can be a risk worth taking in the right circumstances.

Keep a copy! Sounds simple, but it's a common problem.

Suppliers often add provisions to their contracts that deal with international arbitration and say which courts are allowed to hear disputes. While a New Zealand supplier will want to have disputes heard in New Zealand, the marketplace may dictate another country.

In a perfect world vendors will cover all the bases and get detailed contracts legally vetted for each target market, but often that is not practical. Risk must be balanced with practical and commercial reality. Some basic steps will minimise that risk. Perhaps get specific advice in one or two countries but not others. Rely on specialist New Zealand lawyers to minimise international risk. They often cost much less money anyway than overseas lawyers.

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Wigley & Company is a specialist technology (including IT and telecommunications), procurement and marketing law firm founded 11 years ago. With broad experience in acting for both vendors and purchasers, Wigley & Company understands the issues on "both sides of the fence", and so assists its clients in achieving win-win outcomes.

While the firm acts extensively in the commercial sector, it also has a large public sector agency client base, and understands the unique needs of the public sector. While mostly we work for large organisations, we also act for SMEs.

With a strong combination of commercial, legal, technical and strategic smarts, Wigley & Company provides genuinely innovative and pragmatic solutions.

The firm is actively involved in professional organisations (for example, Michael is President of the Technology Law Society and Stuart van Rij its secretary).

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