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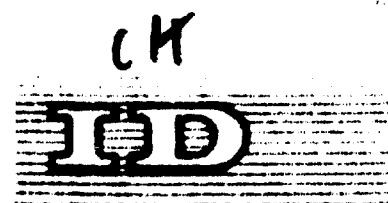
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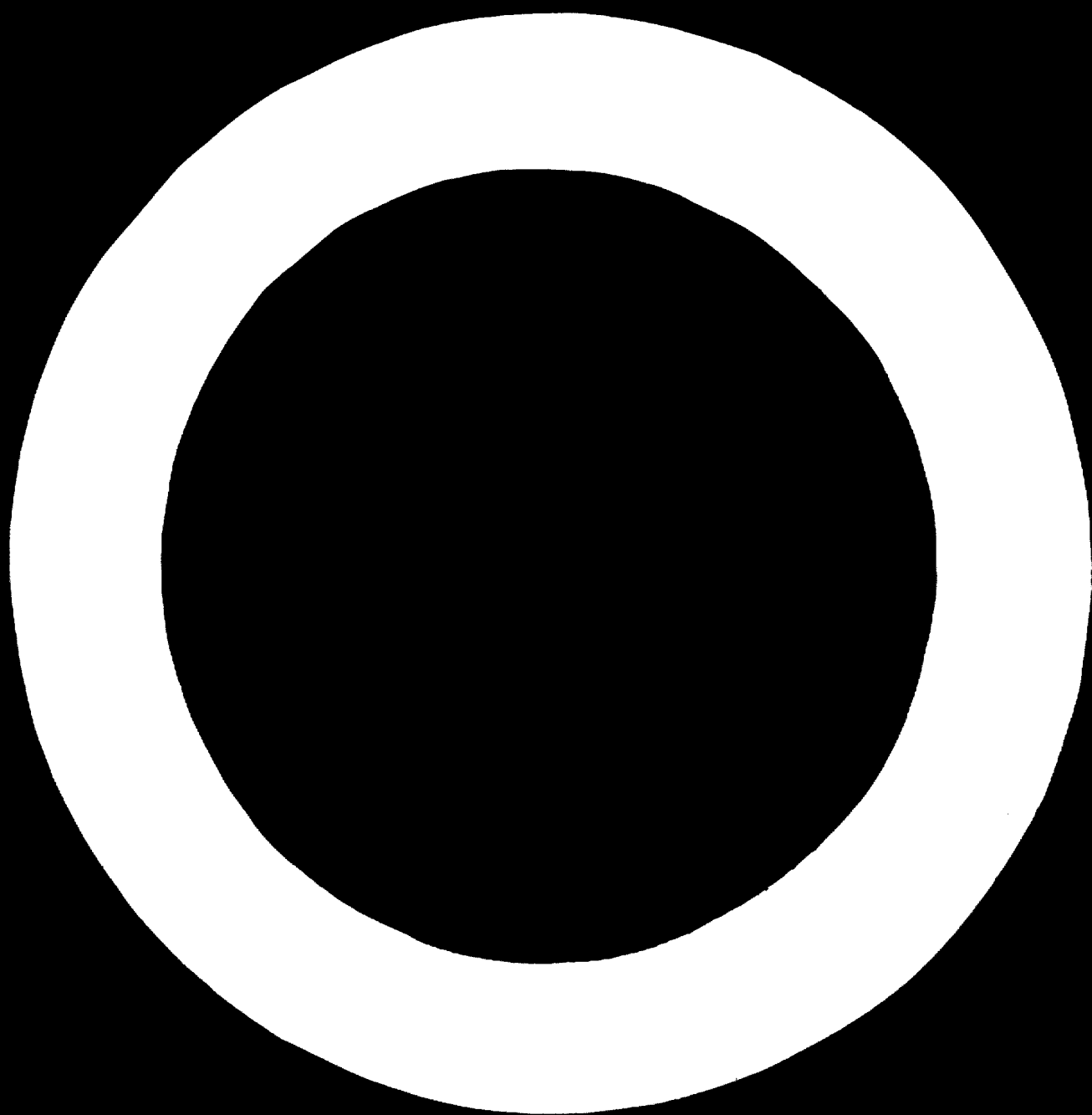
BASIC ELEMENTS OF INTERNATIONAL LICENSING  
AGREEMENTS INVOLVING DEVELOPING COUNTRIES 1/

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In any legal relationship it is advisable that the respective rights and obligations of the parties be clearly defined. International licensing agreements pose special challenges in this regard since they involve parties of different nationalities, frequently separated by thousands of miles, and also because they are usually intended to cover performance over a period of several years.

When the licensee is an enterprise in a developing country, additional factors have to be taken into account. Firstly, many types of services---banking, insurance, transportation, communications and distribution networks---are likely to be much simpler than they are in commercially advanced countries. Climate conditions may have an important effect. Cultural traditions in the country of the recipient should also be sensitively appreciated.

Prospective licensors should, in addition, be keenly aware of certain attitudes that are now becoming established policies in many developing countries. As recently as ten years ago, licensors were virtually unrestrained in their dealings with enterprises in these countries. Antitrust laws, which must always be considered when licensing in the United States, and which had just been introduced in the European Common Market, were unknown

in the lesser developed parts of the world. Enterprises in these countries, including their governments, who were seeking new technology were inexperienced, and frequently naively over-ambitious, about the types of projects they could effectively handle. In this relatively free-wheeling atmosphere, deals were often made which were unfavorable to the licensee, or were at least ill designed to succeed in the recipient countries.

A new breed of technocrats in many developing countries has done much to right old imbalances. They are educated in the antitrust doctrines of the west and therefore frown upon attempts by licensors:

- \* to fix prices at which the licensees can sell the licensed products or goods made with a licensed process
- \* to impose tying clauses forcing licensees to purchase from the licensor (unpatented raw materials that are freely available elsewhere
- \* to oblige the licensee to acquire certain technology, already freely available in the recipient country, as part of the larger package
- \* to require a licensee to use trademarks of the licensor under conditions which do not enhance the chances of the licensee to succeed in the local market
- \* to insulate the licensee from reasonable export markets
- \* to charge royalties, or otherwise structure a basis of remuneration to the licensor, that are unreasonably high in the circumstances.

These attitudes have been translated into legislation that has been adopted, in varying forms, by many countries. These include Mexico, the member nations of the Cartagena Agreement (Colombia, Peru, Ecuador, Bolivia, Chile and, most recently, Venezuela), Argentina, Brazil and India. Procedures have been established for examining both existing and new agreements in the light of established criteria. The regulations cover licenses between unrelated parties as well as technology transfers to joint ventures and to controlled subsidiaries. In most cases, these procedures have required the organization and staffing of new government administrative bodies, or the substantial reinforcement of old ones.

But there is another side to this coin. Admitting that there were certainly some excesses and badly conceived licenses in the past---a situation which was by no means universal because there were also some notably successful arrangements---the climate of international business has changed. The companies who seek to introduce their technology to the developing countries are frequently the most experienced proprietors, and are often companies who are interested in long run benefits rather than quick profits. They are usually multinational companies, who have

a wide variety of interests in different parts of the world, and who sometimes approach the markets in the developing countries after having "conquered"---or at least established their relative position in---the more developed markets of North America, Europe and Japan.

In seeking to regulate the licensing process, the developing countries are therefore dealing with some of the most powerful---and frequently enlightened---organizations of the world. This is not to say that the major multinational corporations have lost sight of the profit motive, or even that they are benign and amiable giants. However, in order to rise to the top of such companies under present conditions, their senior executives must possess sophistication and understanding of problems in all significant existing and potential markets around the world.

These people are thus more likely than less experienced businessmen to be open to reasonable measures to control their investment and licensing efforts in developing countries. It should therefore always be remembered that these senior executives continually weigh a project in any given country against other opportunities elsewhere. Thus, if conditions in a host country are made unattractive, it may be decided to place attention in countries which are more receptive in their attitudes.



Obviously, this regulatory process requires understanding and efficiency if the recipient countries are to succeed in their efforts to realize a greater share in the benefits of technology transfers. If, for instance, a company is required to relinquish a major percentage of the equity of an enterprise in a developing country, the input of the shareholders representing the interests of the developing country should be positive---or at least it should not obstruct the reasonable development of the enterprise as a viable economic unit. To the extent that this is frustrated, it is submitted that the regulatory effort is misdirected. It should never be forgotten that the private sector of the economy is not a cure-all for the need for development. By the same token, the transfer of technology by licensing involving business enterprises can have many positive effects, and there is a certain amount of room for enlightened government regulation.

Without wishing to belabor this point unduly, it is relevant to note that the outstanding success of Japan in regulating the licensing process for its own interests has been the model for many of the people who have framed similar legislation for the developing countries. It is obvious however that Japan, with its high rate of literacy, well developed commercial infrastructure and vigorous, disciplined work force located in a temperate climate,

possessed many assets that are simply not present in many developing countries. It is thus earnestly submitted that the highly motivated efforts now under way to regulate the licensing process--- particularly directed against the multinational corporations which are the chief practitioners of licensing in the developing countries---can be self defeating, particularly if policies which were successful in highly efficient climates such as Japan are slavishly copied.

The proprietor has usually expended substantial sums in research and development to acquire the body of knowledge and skills (whether or not covered by local patents) that the recipient is interested to put to use in the developing country. Frequently such technology only becomes available to the developing country after it has been exposed or utilized, in the more advanced countries, where the proprietor may be participating in some ongoing business or licensing relationship. Even so, considering the cost of research and the risks that have been taken to create a body of valuable technology, the proprietor should be anxious to realize further return on its investment by introducing such technology into any given developing country. Two conditions could reasonably attach to the proprietor's proceeding with such a project: (i) it should not disrupt some satisfactory business

already existing in other countries relating to such technology; and (ii) it should have a reasonable profit potential, at least in the long run.

The recipient would be expected to have some or all of the following pre-occupations:

- the technology to be provided should be truly appropriate to conditions in the developing country. In some cases, this could mean that the latest and most advanced version should be provided; in others, simpler or more labor intensive versions would be more suitable
- the proprietor should be obliged and capable of providing the needed training of key personnel in the developing country. Some of such training might occur at the headquarters of the proprietor, where the trainee can appreciate better the scope of what is involved. Probably the greater part of such training, however, should take place in the host country, where the proprietor's instructors can see at first hand the best way in which the licensed technology can be adapted to local conditions
- the licensed technology should utilize local resources, including raw materials, labor skills and supervisory personnel, as much as possible
- the activity should make a contribution to the economy of the host country that is greater than mere import substitution. Thus, the possibility for exports, that will earn a meaningful foreign exchange, should be aimed at. Realistically, this desire should be tempered by an appreciation that the proprietor may have existing interests in various potential export markets that the proprietor would not wish disturbed

- the importation of the licensed technology should have some positive side effects, such as encouraging the development of certain local supporting or supplying industries. On the other hand, such technology should not tend to destroy some cultural, historical or ecological situation existing in the country that should rationally be preserved.

Recognizing these general ground rules, licensing agreements to developing countries should contain provisions which can accomplish the transfer of technology efficiently, and without areas of uncertainty which can become bases for future disagreements. Even if the recipient entity in the developing country is a joint venture, partially owned by the proprietor, it is believed wise to define clearly the conditions of the technology transfer in a formal agreement. The following points should be covered:

Define the Technology - the parties should be clear about the information to which the recipient is entitled. This includes an indication whether everything the proprietor owns in a specific field is included, or only certain versions or embodiments thereof, and also what (if any) rights the recipient may have to improvements or additions to the technology that become available in the future to the proprietor.

Describe the Territory and the Degree of Exclusivity - if the recipient assumes (as is the usual case) that its rights are to be exclusive in its home country, it should be appreciated that other licensees of the same proprietor would require the same arrangement. Nevertheless, some reasonable export territory can usually be worked out. One formula is to have the recipient permit the proprietor to "coordinate" export sales. Another approach, more preferable to the recipient, is to permit export anywhere except to countries in which the proprietor has granted---or may in the future grant---exclusive rights to a third party.

Provide Thoroughly for the Technology Transfer and Training - this is a crucial provision of a license that frequently does not get enough emphasis. Several points to be considered in this connection are:

- planning, construction, plant lay-out and start-up of production facilities. Should this be a turnkey operation? Can the recipient or other local interests appropriately participate in this aspect of the work? Have reasonable deadlines and performance guarantees been provided?
- provision of blue prints, operating manuals and other necessary production and marketing information. This should be delivered promptly and perhaps be in several versions, designed for persons at different levels of responsibility.
- procedures for thorough and perhaps extended training. This might start with teaching a cadre of supervisors and then extending this to include all other key elements of the work force.
- have the proprietor maintain back-up capability for a substantial period of time, to solve problems that may arise during the early phases of operation. This might even include requirements to have representatives of the proprietor present at strategy meetings held at the premises of the recipient.

Tailor Production to Capabilities and Needs - it may be that the best way to proceed at the outset is to assemble knocked down kits---or to re-package from bulk---rather than to commence total manufacture of items covered by the transferred technology. Or, the recipient should rationally only make certain models having greatest need locally, and perhaps import the rest. At the outset, the efforts of the licensee should be focused on the areas of greatest priority, with the understanding that activities should then expand consistent with growing needs and capability.

Install Strict Quality Control Procedures - one of the most valuable assets of any producer is a reputation for high quality---and a negative image in this connection is hard to live down. The fact that Japan was able to change its image to one of excellence was one of the principal reasons for the rapid international acceptance of Japanese goods. Developing countries should be aware of this, both for goods intended for domestic consumption as well as those meant for export.

Provide for a Local Research and Development Program - employees of technology recipients, who are aware of local conditions, frequently get interesting insights that can have value locally and perhaps also in other areas, both more advanced and at the same stage of development. Work on such projects can also create good licensee morale and increase commitment, particularly if there are generous rewards for those responsible for valuable improvements.

Establish Effective Reporting Requirements - the lines of communication between the parties should be strong and open for best results. The licensee should be required to report to the proprietor---perhaps monthly and no less than quarterly---describing sales and remuneration owing, marketing efforts and the status of any research being undertaken. This might be in accordance with a mutually agreed format to provide ready comparison with earlier periodic reports from the same licensee, as well as measurements of performance against that of third parties who are licensees of the same proprietor in other areas. The degree to which these reports are truly informative often has a direct effect upon the value of continuing support a proprietor can give his licensee.

Obtain Prompt Approval (and hopefully active support) from the Government of the Host Country - the licensee should take the lead in "selling" the transaction to his government. Indeed, it is usually advisable to inform the government of the proposed terms of the arrangement to get provisional approval even before the deal is finalized. The speed and efficiency with which this approval can be accomplished can have a direct bearing on the continued enthusiasm of the proprietor. Nothing is better calculated to spoil a budding relationship like this than long delays and re-negotiations with the host government because the recipient has failed to "do its homework" properly.

All of the foregoing provisions are usually included in licensing arrangements in which both parties are located in developed countries. They are singled out for special comment here, however, since they are not only particularly important when the licensee is located in a developing country, but also because the procedures often need to be expanded to promote the success of such relationships. Other contractual provisions commonly included in licenses apply equally to both environments. For the sake of completeness, these are catalogued as follows:

- bind the licensee to keep confidential trade secrets and other information outside the public domain made available under the arrangement.
- if trademarks are involved, procedures for marking legends, quality controls by the proprietor and packaging should be established. Patent notices should also be affixed where patent licenses are granted.
- the possibility of infringements---either by the licensee or by third party infringers of the licensed technology---should be anticipated and the respective responsibilities of the parties established.
- the basis of remuneration should be clearly defined as should procedures for prompt payment.
- the term of the agreement, as well as possibilities for renewals or extensions, should be provided. Rights upon termination should also be set forth.
- in the event of defined breaches of the agreement, remedies should be clearly set forth, including the possibility of arbitration if the parties prefer.
- a variety of "boiler plate" clauses can be inserted to cover several possible problems. These are:

"Should the agreement be terminated by the licensor for any reasons specified herein, the licensee shall not be able to claim from the licensor any damages or compensations for losses, or expenses incurred, or for lost profits."

"Termination of the agreement for any reason shall not affect (a) obligations, including the payment of any fees, which have accrued as of the date of termination, or (b) those obligations which, from the context of the agreement, are intended to survive its termination."

"Neither party shall be in default hereunder by reason of its delay in the performance of or failure to perform any of its obligations hereunder if such delay or failure is caused by strikes, acts of God, or the public enemy, riots, incendiaries, interference by civil or military authorities, compliance with Governmental laws, rules and regulations, delays in transit or delivery, inability to secure necessary Governmental priorities for materials, or any fault beyond its control or without its fault or negligence."

"Any waiver by either party of a breach of any term or condition of this agreement shall not be considered as a waiver of any subsequent breach of the same or any other term or condition hereof."

"This agreement contains all the understandings and representations between the parties relating to the matters referred to herein, supersedes any agreement previously entered into between them with respect thereto, and may be amended only by a written supplement, duly executed on behalf of the respective parties."



"If any provision of this agreement is declared void or unenforceable by any judicial or administrative authority, this will not ipso facto nullify the remaining provisions of this agreement unless the licensor, in its discretion, decides that such declaration goes to the heart of this agreement, in which event this agreement shall terminate on thirty (30) days' written notice from the licensor to the licensee."

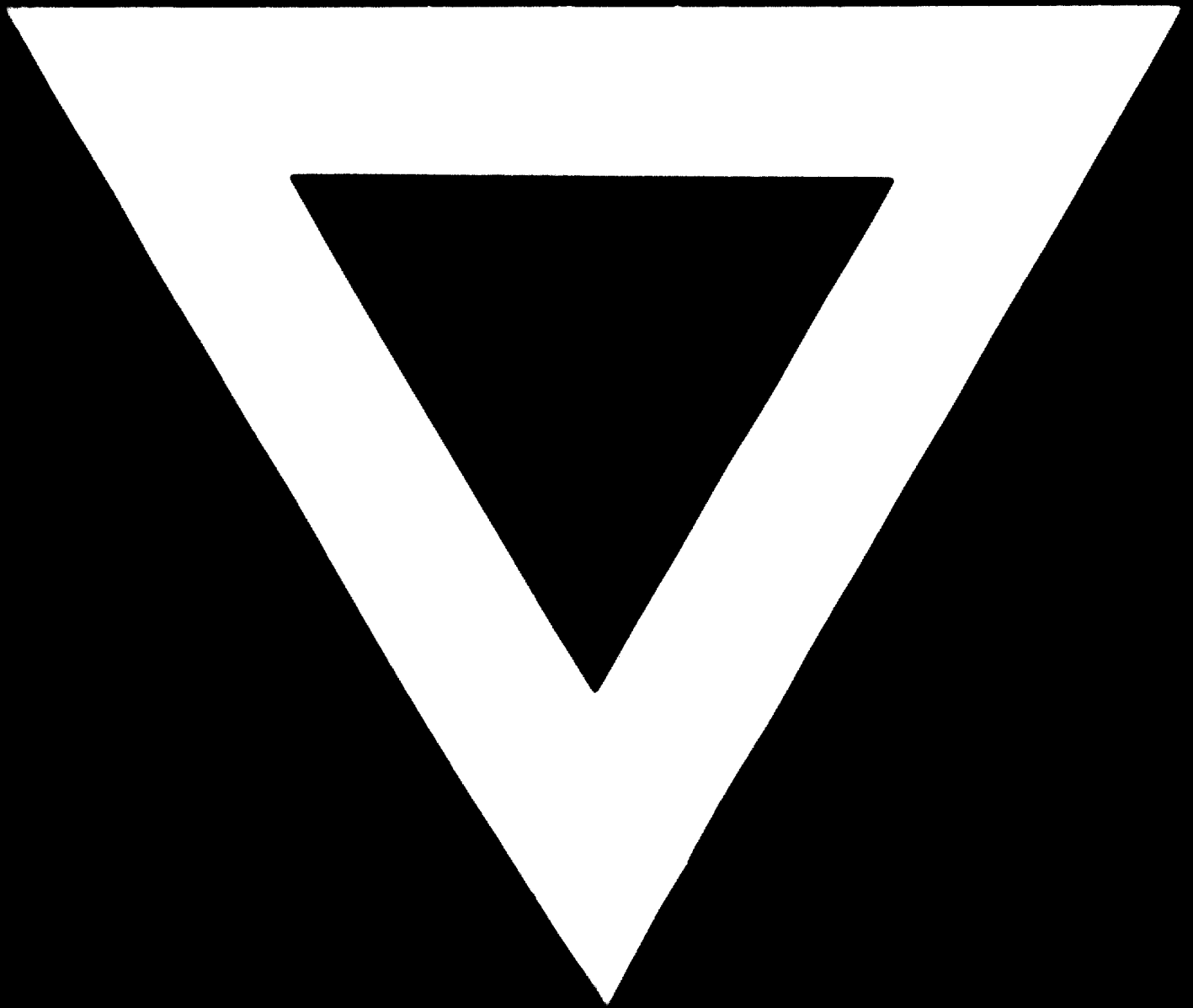
Some or all of these clauses are usually found to be appropriate by the parties in clearing up possible misunderstandings.

### CONCLUSION

The licensing process can meet the needs of proprietors of technology as well as enterprising citizens and other commercial interests in developing countries. The normal rules should be carefully tailored to special conditions in each area if the chances of success are to be realistic. With skill, patience and a genuine effort to understand the requirements of the other party, licensing can nevertheless be an effective medium and catalyst for meaningful development.

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