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05862



Distr.  
LIMITED

ID/WG.194/2  
5 November 1974

ENGLISH  
ORIGINAL: SPANISH

United Nations Industrial Development Organization

Interregional consultation on exchange of experience  
between developing countries: Formulation and application  
of the Mexican Law on Licensing and Patents and comparable  
experience in other developing countries

Mexico City, Mexico,  
11-15 November 1974

*Technology transfer  
licensing  
contract  
Latin America*

LEGISLATIVE AND INSTITUTIONAL SYSTEM FOR  
FOREIGN TECHNOLOGY TRANSFER AGREEMENTS ✓

by

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✓ The views and opinions expressed in this paper are those of the author and  
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We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

## INTRODUCTION

1. From the 1960s onwards, the developing countries began to feel growing concern about the implications of the transfer of technology from abroad. Academic research and studies by governmental and intergovernmental organisations helped to throw light on an aspect of international transactions which had up to that time been little known. An UNCTAD report<sup>1/</sup> states "The technology-suppliers view the matter as one of barriers to commercial operations involving the transfer of technology and not as one of obstacles to development which may arise from the transfer process."

2. During the 1960s, control measures were concerned mainly with regulating the outflow of foreign exchange, particularly in those countries whose growth was held back by balance-of-payment problems. Exchange control was the principal tool for regulating remittances of foreign exchange.

Subsequently, an understanding of the magnitude of the problem of the transfer of technology in its full impact on economic and social activities, concern about the role of foreign investment and the adoption of planning in the majority of developing countries led to a more comprehensive approach in the formulation of policy objectives and in the drafting and implementation of associated regulations.

3. In April 1971 UNCTAD sent out a questionnaire<sup>2/</sup>, the answers to which were not very encouraging. From this information it was concluded<sup>3/</sup> that "while there is widespread awareness of, and information on, the procedures relating to foreign investment in the developing countries, the same is not true for institutions and policies explicitly relating to the transfer of technology". Out of the countries replying to the questionnaire only eight indicated that they had special institutions dealing with the matter while two others applied screening procedures to the transfer of technology but did not appear to follow them in any clear and systematic manner.

4. This situation is, however, rapidly changing. From the answers to the questionnaire submitted to countries in connexion with this Interregional Consultation, it can be concluded that, in addition to India and Japan which have been regulating the transfer of technology for some time, there is a large group of countries in Africa, Asia and Latin America which have control systems. The analysis also reveals that there are considerable differences between countries in the methods used and the degree of progress made in the implementation of their system.

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<sup>1/</sup> Major issues arising from the transfer of technology to developing countries: report by the UNCTAD Secretariat" (E/CN.3/S.11/10/Rev.1).

<sup>2/</sup> Questionnaire on the transfer of technology, including know-how and patents: note by the UNCTAD Secretariat (E/CN.3/S.11/4).

<sup>3/</sup> See document E/CN.3/S.11/10/Rev.1 paragraph 109 et seq.

5. In Latin America, considerable stimulus was given by decisions Nos. 24, 37 and 37a of the Commission of the Cartagena Agreement which were adopted between December 1970 and July 1971; the Commission approved the "common régime governing foreign capital, trade marks, patents, licenses and royalties."

Among other important provisions, article 18 of the aforesaid régime states:

"All contracts relating to the import of technology and to patents and trade marks must be submitted for approval to the competent organ of the member country concerned, ...".

6. As was to be expected, the régime has had an effect on the countries parties to the Andean Agreement. Thus Peru, for example, incorporated decisions 24 and 37 in its domestic legislation by Decree-Laws 18,900 and 18,999 of July and October 1971.

The effects of the criteria established by the Commission of the Cartagena Agreement also extended beyond the frontiers of the member countries and their influence was manifest in the legislation passed in other Latin American countries. Mention may be made of the following:

- In Brazil, Law No. 5772 of December 1971, which brought into force the new Code of Industrial Property, and
- In Mexico, the Law on the National Registration of Transfer of Technology and the Use and Exploitation of Patents and Trade Marks, approved by Congress at the end of 1972.

7. Argentina, which in Decree-Law 19,231 of September 1971 had followed the guidelines of decision 24, passed at the end of September 1974 a new Law on the Transfer of Technology, which took account of experience in the administration of the system and which was in conformity with the directives of the Policy of National Liberation.

8. In some countries, regulations governing the transfer of technology have not been consolidated into a single enactment but are covered by a group of laws. Thus, the Republic of Korea assigns to the Ministry of Science and Technology the overall control of the policy relating to transfer of technology, which is based on four main laws: that governing foreign capital, that governing foreign exchange, that governing the promotion of technological development and that governing the promotion of engineering consultancy services.

9. Until a few years ago, it was the more industrialized of the developing countries which showed the greatest concern. It now seems that such a picture is being modified by the efforts being made by some less developed countries to take account of the problems raised by the transfer of technology and the need to establish regulatory machinery. It is also significant that similar concern has spread to some developed countries which find themselves in a position of technical dependence on the Great Powers.

Objectives of a regulatory system

10. As has been pointed out, the regulation of the import of technology arose originally from concern about balance-of-payments considerations. Although such concern continues to exist, the most recent legislation is much more broad-based, with objectives such as those which have been defined as follows by

N. de María Campos<sup>4/</sup> with reference to the Mexican law:

- "(a) To regulate the transfer of technology so that the conditions stipulated in the contracts are compatible with the objectives of social and economic development and national independence;
- "(b) To strengthen the negotiating position of undertakings so that they can acquire the technology they need on the most advantageous possible terms both as regards the financial outlay involved and the contractual conditions concerning the use of the technology and the goods manufactured with it;
- "(c) To create an awareness in the entrepreneur of the importance to the country's development of technology and, in particular, of the importation of technology on a rational basis;
- "(d) To establish an official register so that information can be built up about the terms of contracts and the problems inherent in the process of transferring technology, thereby making better planning of the industrial and technological development of the country possible."

11. From the replies to the UNIDO questionnaire, it is possible to add to the above-mentioned objectives others which are also a matter of concern to developing countries which regulate transfer of technology:

- (i) To channel investments in relation to industrial planning targets (Pakistan);
- (ii) To promote industrial growth which leads to the maximum utilization of local resources (Sri Lanka);
- (iii) To redirect industrial research towards practical ends (Sri Lanka);
- (iv) To stimulate local research and development as a counterpart to the royalties paid out (Republic of Korea);
- (v) To promote the development of local engineering capacity (Republic of Korea);
- (vi) To protect the development of local technology (Argentina).

12. The Commission of the Cartagena Agreement, in the declaration prefacing the régime established by decisions 24 and 37, stressed that "national undertakings should have the greatest possible access to modern technology and contemporary administrative innovations [but that] at the same time it is necessary to establish effective machinery and procedures to produce and protect technology in the Subregion and to improve conditions under which foreign technology is acquired".

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<sup>4/</sup> N. de María Campos, La política Mexicana sobre transferencia de tecnologías una evaluación preliminar, Comercio Exterior, México, 1974.

Transactions which are the subject of regulations

13. In a general sense, it may be said that transfer control regulations refer to "disembodied" technology which may be contained in documents (patterns, plans, models, manuals, specifications, detailed engineering plans, etc.) and in persons (experts, technicians, engineers, foremen, etc.).<sup>5/</sup>

Nevertheless, precise legal enactments which define the sphere of application in each country differ to a greater or lesser extent and may include agreements involving one or several of the following transactions:

- (a) Licences for the use and acquisition of trade marks, patents, industrial models and drawings;
- (b) Furnishing of technical information by plans, diagrams, instructions, specifications, etc.;
- (c) Training of skilled personnel;
- (d) The provision of basic or detailed engineering plans for the building of facilities or manufacture of products;
- (e) Technical assistance;
- (f) Services for the administration and operation of business enterprises.

14. Most of the legislation studied regulates transactions to acquire technology from abroad on the part of undertakings established in the country, which involve the outflow of foreign exchange. Some points of difference should however be noted:

- (i) The Mexican law does not differentiate between transactions between Mexican nationals, between foreigners and nationals or between foreign entrepreneurs; if they have an effect in Mexico, they must be registered;
- (ii) The new Argentine law extends the sphere of application to all legal transactions involving the transfer of technology from abroad - even concessions granted free of charge - which give rise to obligations in respect of suppliers resident abroad or of subsidiaries of foreign owned undertakings, unless the aforesaid subsidiary can prove a true title of ownership or is in effective possession of the technology transferred or of the know-how to be provided.

Regulatory organs

15. The establishment of regulations has required consideration of various characteristics of the institutions responsible for the administration of the transfer of technology. One point to be considered is the position of this institution in the administrative hierarchy, in view of the close relationship of the transfer of technology to various aspects of economic policy such as industrial growth, planning of science and technology, foreign investment, exchange control, industrial property and foreign trade, etc.

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<sup>5/</sup> See Jorge Sábato, El Comercio de tecnología, Department of Scientific Affairs, Organisation of American States, 1972.

16. The solution adopted by a number of countries has been to assign responsibility for the matter to specific organs coming under the Ministry of Industry (or its equivalent). This is the course adopted by Mexico with its National Register for Transfer of Technology, with the status of a directorate-general of the Secretariat of Industry and Commerce. Similarly, Argentina has entrusted the operation of the system to the National Register of Contracts for Licenses and the Transfer of Technology coming under the National Institute of Industrial Technology; the decisions of the National Register are scrutinized by an advisory committee composed of officials of the Secretariat of Industrial Development, the Secretariat of Science and Technology, the Central Bank and the National Development Bank, before they are submitted for final approval or rejection by the Secretary of State for Industrial Development.

17. In Sri Lanka, the evaluation of contracts for licences is the responsibility of the Ministry of Industry; they are then submitted to the Advisory Committee on Foreign Investment which is composed of representatives of the Ministries of Planning, Industry, Finance, Trade and Exchange Control. Similar groups of government officials deal with evaluation in other countries. In the Philippines, it is handled by a technical group drawn from the Central Bank and the Investment Bureau; in Pakistan, special category projects must be approved by the Committee for co-ordinating Investment Promotion, composed of officials from the Ministries of Industry, Commerce, Finance and Planning and from the Provincial Departments for Development and Industry, from the Export Promotion Office, the Industrial Development Corporation, the Scientific and Industrial Research Council and the Tariff Commission.

18. The close link between the treatment of licensing agreements and the policy on patents has led some countries to prefer to assign the registration of such agreements to bodies responsible for implementing the regulations governing industrial property. In Brazil, this duty is discharged by the National Institute of Industrial Property (INPI). In Peru, the Industrial Property Office under the Ministry of Industry and Tourism evaluates contracts for the import of technology and constitutes the competent organ for Peru under the provisions of decision 24. In Colombia, another country member of the Andean Pact, authority is delegated to the Royalty Committee, under the Secretariat of Industry and Commerce.

#### Structure and functions of regulating organs

19. The variety shown with regard to the basic legislation and the position of the institutions responsible for operating the regulations within the administrative hierarchy, is also reflected in the internal characteristics and attributions of those institutions.



20. At the third session of the United Nations Conference on Trade and Development, held in Santiago, Chile, in May 1972, resolution 39 (III) was adopted which, inter alia:

"Invites the developing countries to establish institutions, if they do not have them, for the specific purpose of dealing with the whole range of complex questions connected with the transfer of technology from developed to developing countries, and takes note of the wishes of the developing countries that these institutions should, inter alia:

- (a) Be responsible for the registration, deposit, review and approval of agreements involving the transfer of technology in the public and private sector;
- (b) Undertake or assist in the evaluation, negotiation or renegotiation of contracts involving the transfer of technology;
- (c) Assist domestic enterprises in finding alternative potential suppliers of technology in accordance with the priorities of national development planning;
- (d) Make arrangements for the training of personnel to staff institutions concerned with the transfer of technology."

21. Lack of knowledge about the characteristics of transactions involving technology, owing to the fact that they are contracts between private parties, has led some developing countries to pay particular attention, as a first step, to the task of registering such agreements. At the same time, and in order to avoid sudden dislocation of the operations of undertakings using technology from abroad, an application for registration is the only requirement in the case of contracts entered into before the establishment of control regulations, in order to give them validity and consequently authorize remittance of payments abroad.

Both Argentina and Mexico have given a two-year period of grace for the clauses of such contracts to be brought into line with the provisions of the law.

22. Countries which have assigned the tasks of registering and evaluating agreements to a special body, may find guidance in the structure of the Mexican body (ANEP) where the two functions are clearly differentiated.

#### The review and evaluation of contracts involving the transfer of technology

23. The criteria and methodology for the review and evaluation of technology transfer contracts is in process of consolidation. Information from the questionnaires sent out by UNCTAD confirms that the review of contracts submitted for approval is conducted under three headings: technical, economic and legal.

24. The existence of local know-how is one of the preconditions for attention in the technical review of contracts. Some countries review in depth the question of the free availability of the know-how, the impact on domestic technological capacity, the

possibility of absorbing the technology acquired, the weight of effort made by the recipient undertaking in research and development, the utilization of the natural and human resources of the country, etc.

Some countries are making a special effort to split up the "technological package" to permit the separate evaluation of each of the intangible goods which go to make up the subject of the contract<sup>6</sup>.

25. As planning has advanced in the developing countries, there is an increasing tendency to consider the transfer of technology within the framework of government plans. This has meant that contracts are evaluated in order to ascertain the extent to which they fit in with the goals and objectives of over-all and sectoral plans; in addition, the plans themselves state in increasing detail the technical requirements necessary for their implementation. In this way, a more balanced and integrated picture is being obtained of the transfer and of the indigenous development of technology in the various user sectors.

26. Some legislation disallows contracts with a life of more than 10 years; in other cases, the duration cannot exceed 5 years, but renewals are permitted subject to the approval of the regulatory organ. It is also usual, within these maximum periods, to set a terminating date for each contract based on the time necessary for the know-how to be fully transmitted. In addition to putting a time-limit on contracts, it is customary at the same time to review the extension of confidentiality after their expiry: the most recent legislation restricts this practice to cases involving industrial property rights valid over a longer period than the duration of the licence agreement.

27. Payment for the transfer of technology is customarily made in the form of royalties. Some regulations fix ceilings for the rate of such royalties so that they cannot exceed a certain percentage of the receipts from the sales of goods manufactured under licence. The ceilings may vary in some countries according to the industrial sector to which they apply. A check on the foreign exchange cost of the imported inputs prescribed directly or indirectly by the licensor has led to the establishment of reference bases for calculating royalties on terms which are more consonant with the value added by the undertakings importing technology. The over-pricing of the inputs and capital goods stipulated by some suppliers of technology has strengthened the links between the regulatory organ and customs valuation offices and measures have been adopted to correct these practices which are harmful to the national interest.

28. There is no simple way of judging the payments from subsidiaries to their parent companies through the machinery of technology transfer agreements. The Andean Pact countries, in conformity with article 21 of decision 24, do not authorize the payment of royalties or allow any deduction under this head or for contributory purposes. Other legislation does not make a special case of contracts between subsidiaries and parent companies, although the financial services usually monitor the flow of royalties to prevent large remittances by some corporations. The new Argentine law states that in the case of agreements between subsidiaries and parent companies, payment shall be in conformity with the regulations governing profits and in particular with regard to permitted ceilings, remittances abroad and the relevant charges.

Furthermore, Argentine legislation, following the guidelines of decision 24, does not allow the capitalization of technology.

29. The answers to the UNIDO questionnaire reveal the special attention being paid by countries to rooting out restrictive clauses inserted in technology transfer agreements. In particular, balance-of-payment requirements and policies modifying the structure of foreign trade have stimulated government action to achieve the elimination of contractual provisions preventing the export of products manufactured under licence. Other restrictive practices specifically mentioned in regulations are:

- (a) The obligation to make available to the licensor - either free or for a consideration - the patents, improvements or trade marks of the licensee;
- (b) The tied-in acquisitions of raw materials or capital goods;
- (c) Prohibition on the licensee obtaining other technologies or employing his own production methods;
- (d) Restrictions on manufacture and marketing and the fixing of retail prices for the product;
- (e) Prior authorisation of the licensor for promotion or publicity by the licensee;
- (f) The obligation always to employ personnel designated by the licensor.

### Legal requirements

30. Usually, the recipient undertaking is responsible for submitting technology transfer contracts for registration. Nevertheless, legislation in some countries - the Philippines, the Republic of Korea, Mexico and Argentina - allows countries to be registered by either the licensee or the licensor.

If the contract is submitted within a period of 60 or 90 days after the date of signature, it enters into force from that date. If it is not so submitted, it is valid only from the date of registration, and in some cases penalties are imposed for submission out of due time.

Non-registration, in addition to making it impossible to remit payments abroad, also means that the contract has no legal validity in the technology-receiving country. In addition, the new Argentine law makes it an offence to give publicity to unregistered licences, patents or trade marks.

31. The most recent regulations reflect two aspects which also appear in the "Pugwash Code" <sup>1/</sup> regarding laws and jurisdiction for settlement of disputes, namely:

- (i) Technology transfer agreements between technology suppliers and recipients from different countries shall be subject, with regard their scope, enforcement and interpretation, to the laws of the technology-receiving country;
- (ii) In the event of a dispute between a supplier of technology and a recipient of technology, legal jurisdiction for settlement of the dispute shall reside in the courts of the technology-receiving country.

32. It is generally required that agreements should be written in the national language of the technology-receiving country; when the submission of an authorized translation is permitted, that translation is the sole valid text for legal purposes.

### Trends in institutional and legal matters

33. Mention has already been made of the continually extending range of instruments of economic policy being employed by developing countries in order to lessen their vulnerability with regard to technology transfers. This extension of protection is shown in the authorization of ad hoc domestic regulations and also by efforts to regulate the transfer of technology internationally, in which considerable advances have been made, such as the Pugwash Code mentioned above, which was drawn up by experts from both developed and developing countries. At the same time, the adoption of an international code of conduct would probably serve to bring about a harmonization in national regulations, particularly in those countries which have not yet consolidated their regulations on the subject in a single enactment.

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<sup>1/</sup> See "The possibility and feasibility of an international code of conduct in the field of transfer of technology" (TD/B/AC.11/L.12).

34. From the institutional viewpoint, it is valuable to consolidate unified procedures for the transfer of technology in one institution, whether it is an existing body concerned with associated subjects (industrial property, scientific planning, exchange control) or an organ specially established for the purpose. The concentration of functions in one institution also facilitates closer links with other government bodies concerned with the transfer of technology both as regards the participation of their staff in the evaluation of contracts and the control of imports and the indigenous development of substitute technology.

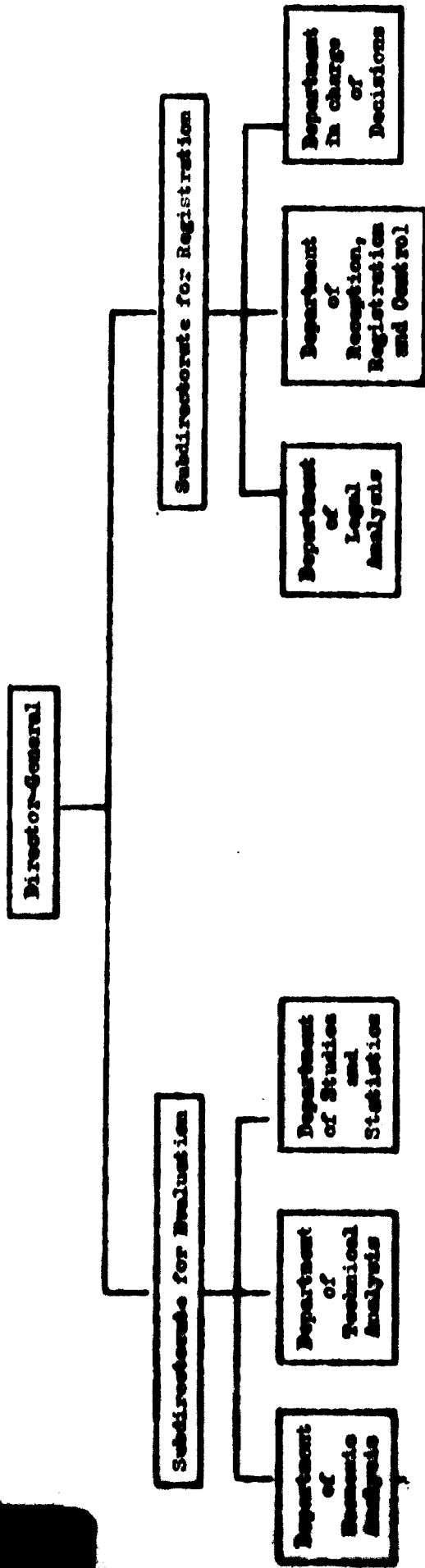
35. There has not as yet been similar progress with regard to defining the functions of regulatory organs, though an advance can be noted from the simple task of registration towards a deeper evaluation of technology transactions and a more active participation in the negotiating stages of agreements.

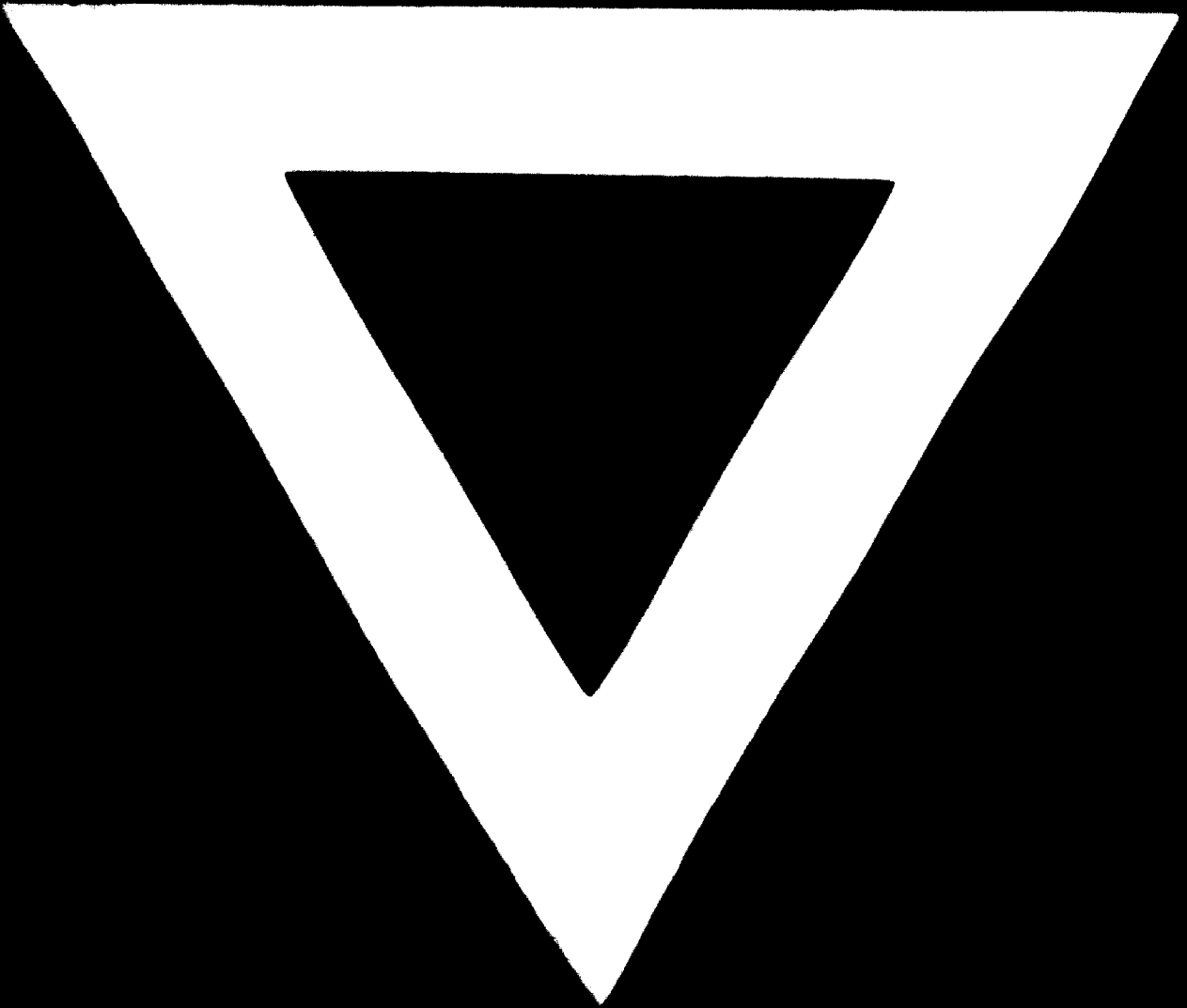
36. The internal structure of regulatory organs and their methods of procedure have not yet acquired a settled form. Many developing countries have expressed their desire to step up the exchange of information concerning their experiences and of documentation in order progressively to overcome the imperfections of the technology market. The training of staff capable of undertaking evaluation is one of the most frequently expressed goals and one of the first problems which must be solved in order to prevent regulatory systems from breaking down through inability to process properly and in good time the applications for registration which they receive. Bilateral technical assistance and assistance given by bodies like UNIDO can make a worth-while contribution to meeting these needs.

CHART I

Directorate-General of the National Register for Transfer of Technology

Mexico





**75.06.06**