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**Meeting on Transfer of Technology to
Developing Countries through Subcontracting
and Licensing Agreements, with Special
Reference to the Automotive Industry**

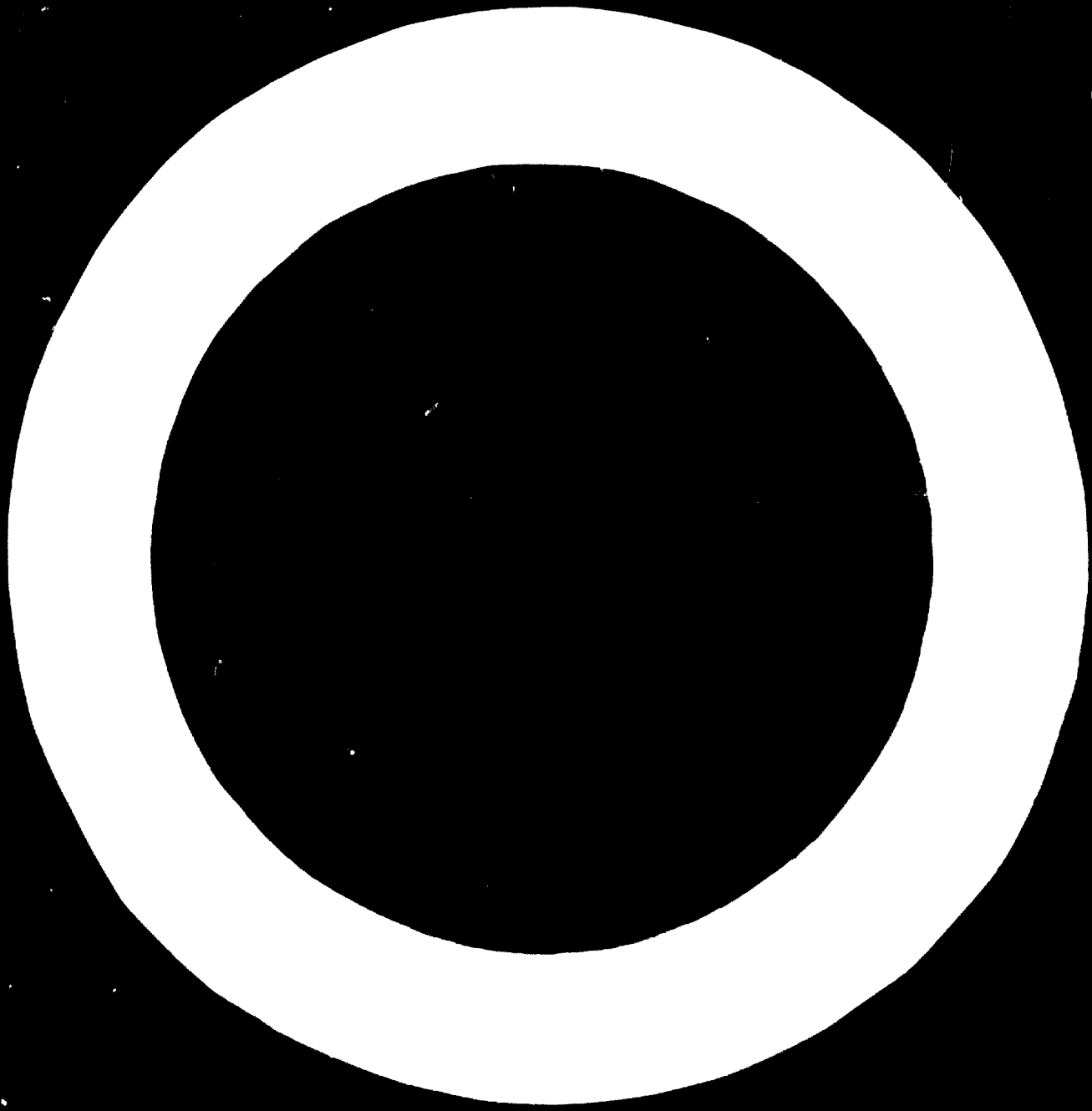
Paris, France, 27 November - 1 December 1972

OPENING STATEMENTS

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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.

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OFFICE STATEMENT OF M. JEAN CHABRILLON,
MINISTER OF INDUSTRIAL AND COMMERCIAL DEVELOPMENT

Gentlemen,

I am very pleased to be able to welcome you personally to Paris and to open this UNIDO Meeting, called to consider the subject of the transfer of technology through subcontracting and licensing agreements, with special reference to the automotive industry.

On behalf of the French Government, I welcome you to Paris and hope that this week's proceedings will be a complete success.

I am convinced that this Meeting will mark a new stage in UNIDO's activities and will make it possible to accelerate the industrialization of the Third World and to strengthen industrial co-operation between the developed and developing countries.

We all regret the absence of Mr. I.H. Abuel-Radman, the Executive Director of UNIDO. From Vienna he has sent us a message which testifies to the fundamental importance which he attaches to this Meeting.

I should like to greet the representatives of many developing countries who have been so kind as to come to Paris, and to express my thanks to the officials from various government departments and the representatives of the large French and foreign car manufacturing companies who are participating in the Meeting. Their competence and their determination to produce results are a guarantee of the success of these proceedings.

* * *

I have no need to remind you of UNIDO's objectives and achievements: you know that this body, the youngest of the United Nations institutions, has already, since its establishment in 1966, shown its drive and efficiency. Its varied operational activities have, inter alia, made it possible to alert world public opinion to the industrialization problems of the Third World.

In regard to the Meeting over which I have the honour to preside, I will remind you that in May 1971 the Industrial Development Board of UNIDO approved a work programme including a proposal by the Industrial Policies and Programming Division for an international meeting with a view to giving further impetus to its policy on the transfer of technology. UNIDO expressed the wish that

the gathering should be held in Paris, and the French Government agreed without hesitation to act as host and to take an active part in organizing the meetings; it also decided to make a financial contribution towards the costs.

The UNIDO authorities have placed their confidence in us, and as Minister of Industrial and Scientific Development I should like to thank them, on behalf of the French Government, for doing so.

Our response in this case is further proof of the French Government's determination to pursue an active policy of aid to the Third World. I may add that it is the first time that such an important UNIDO gathering, attended by such a large number of industrial enterprises, has been held in France. I am extremely pleased at this event, particularly since the topic selected concerns one of the principal sectors of French industry - car manufacturing.

* * *

Since the Second World War, economic co-operation with the Third World has been one of the basic objectives of French foreign policy; this "great ambition of France", as General de Gaulle termed it, has been constantly evident. Of course, historical factors have guided our choices and our aid is, to a large extent, allocated to countries to which we are related by close traditional ties bequeathed to us by history. Nevertheless, the French authorities have always been aware of the need to lend their support to a world policy of aid to the developing countries, through the medium of international bodies. Thus France is playing an active role in the European Economic Community's European Development Fund, in the World Bank, in its subsidiary, the International Development Association, and in the various United Nations organs and Funds providing assistance.

In all international gatherings the French representatives have emphasized our unchanging position in this regard.

This position is also in harmony with that of our Brussels partners, and when the summit conference was held last October, it was stated that "the Community, aware of the problem posed by the persistence of under-development in the world, affirms its determination to increase its aid to, and co-operation with, the most under-privileged peoples ...".

I should also like to point out that, contrary to what some people have asserted, France's policy of assistance to the Third World is widely approved by French citizens, 77.5 per cent of whom, barely two years ago, replied in the affirmative to the question "In your opinion, should France continue to assist the developing countries?"

I would also mention that myself have always taken a great interest in the Third World's development problems. I venture to remind you that I was, a few years ago, Secrétaire d'Etat of the Ministry of Foreign Affairs, responsible for co-operation in the Government of General de Gaulle. During that period I was able to familiarize myself with the manifestations and causes of under-development and to appraise the extent of the work to be done in order to promote economic growth and, through it, a rise in the standard of living of so many disadvantaged peoples.

There is no need for me to tell you that the industrialization of the new countries raises numerous difficulties.

In order to establish a profitable industry, a number of factors have to converge: raw materials, energy, capital, labour and managerial staff, technology, a favourable environment, and market outlets. In the developing countries, however, these conditions are not always fulfilled, and in some cases growth can be achieved only by an expansion of agricultural output.

It is, however, most desirable that a balanced development should be promoted, involving agriculture, the exploitation of the subsoil, and in particular the establishment of factories. Industrialization has a direct and rapid multiplier effect; it creates jobs and therefore makes it possible for wages to be distributed and for budgetary resources to be generated for the State.

Although it was considered for centuries that industry was the privilege of a few countries enjoying a temperate climate, this thesis has been rightly rejected and in tropical countries industrial plants, based either on the exploitation of natural resources or on the substitution of imports of consumer goods produced by the rich countries, have been gradually established. However, this has been a slow process.

Without any doubt UNIDO, since its establishment in 1966, has played a positive role in promoting the industrialization of the Third World. In this connexion I should like to emphasize the effectiveness of organized meetings

at which private enterprises in the richer countries can be brought into contact with those responsible for the industrialization of the developing countries.

But there are still many problems: co-operation between the richer countries and the developing countries must be expanded, new solutions must be conceived, and suitably adapted procedures must be prepared, thereby facilitating the industrialization of the Third World.

Every year France provides assistance to many States by financing the training of executives, by granting technical assistance in the form of personnel with a view to creating the administrative structures essential to economic growth, and by contributing towards the establishment of an infrastructure conducive to industrial investment.

Our policy has always been designed to achieve the effective harmonization of private, national and international actions; the meeting beginning in Paris today is an example of such co-operation between the Government of an industrialized country, private industrialists, and an international organization.

I will not dwell on the background to the meetings in which you will be participating for the next few days, or on the form they are to take. Mr. Le Guay, Director of the Industrial Relations and Programming Division, will be giving you all the necessary information on this.

I should, however, like to let you know how pleased I am, as Minister of Industrial and Scientific Development, that my Ministry and the industrialists with whom it works are directly associated with these proceedings.

The theme of this gathering - the transfer of technology - seems to me to be particularly well chosen, since the transfer of technology from the industrialized countries constitutes a fundamental element in accelerating the development of the Third World. In this connexion, I will remind you that these problems are also being studied by the United Nations Conference on Trade and Development; however, the work done at this Paris Meeting and that done at Geneva should not overlap; our efforts will be complementary.

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I hope you will allow me, before officially opening this Meeting, to refer quickly to some considerations of a general nature which seem to me to be essential.

In this field individual initiative should be given as much play as possible, since an industrial operation has a reasonable chance of being stable and lasting if the promoter is an industrialist taking risks on his own account. Often, however, due to the presence of positive factors, the investor holds back. Public support is then likely to ally his savings by creating a favourable climate: such assistance should normally come from the host country, from countries that are already industrialized, and from international agencies.

The fact is that the establishment of industries in a new country raises problems which are not only economic but also psychological and political.

First of all, I should emphasize that investor behaviour must in no circumstances take the form of what has been called neo-colonialism, since all co-operation would then be vitiated. Relations between enterprises and the Governments of the countries where the investment is being made must be based on mutual and balanced advantages and on a common interest, without any trace of dependence.

However, the industrialist wishes - and this is readily comprehensible - to enjoy legal protection. It is true that guarantees are often provided for in the investment contracts drawn up by the authorities of the host country. But it has sometimes happened that, contrary to these provisions, the stipulated conditions have been modified. The existence of political risks is liable to prevent the establishment of industrial plants in the Third World. It is therefore essential that investors should enjoy guarantees covering both financial transfers and financial stability. The inflow of capital and foreign technology is so important for the industrialization of the countries of the Third World that they must pursue a policy likely to encourage such investments.

Thus, if investors are willing and encouragement is given by the host countries, it should be possible to accelerate the industrialization process. Moreover, UNIDO's work is of such a kind as to create a favourable environment for co-operation between private industrialists and those responsible for the industrial development of the Third World.

I should also like to draw attention to another aspect of the problem of the industrialization of the economically retarded countries - the effects of this development on the industries of the older countries. The establishment of these new activities will unfailingly lead to increased competition

on the world market; often, in fact, manufacturing conditions will enable the new producers to market goods at very low prices. The result will be a loss of markets and a modification of traditional trade flows. The over-all balance should certainly be positive, since the increase in the standard of living of the developing countries should generate a demand for imports of products not yet manufactured by them and which they could then afford to pay for.

It is clear that the industrialization of the developing countries will lead to changes in the economic structure of the developed countries. This trend is, however, irreversible, and any sacrifices which will have to be made must be accepted as one of the inevitable consequences of the economic growth of the Third World, which is our common objective.

* * *

Gentlemen, I do not wish to prolong my opening address. I am about to conclude and to leave you to your work.

Industrialization is absolutely necessary in order to solve the problems of under-development, but great difficulties certainly have to be overcome before the considerable gap between the developed countries and the Third World can be bridged.

At present the developed countries, which represent only a quarter of the world's population, account for over 80 per cent of industrial output and hold almost all the available capital. These rich countries, which were the first areas to be industrialized, have managed to arrange for the inadequacy of their own national resources to be made good through an effective policy of obtaining supplies of raw materials from elsewhere, often from distant continents. Thus manufacturing has become concentrated and the world's industrial structure has taken on a particular shape which is by no means in keeping with the great principles of the international division of labour.

The realization of this by the peoples of the developing countries and the responsibility for it felt by the richer countries have led to the institution of international economic and financial co-operation.

Economic growth, a fundamental element in raising the standard of living, poses great problems, including problems of a financial, human and technical nature; the experts of the United Nations have laid the foundations of a global development strategy taking into account the many factors which have a direct or indirect effect on the desired economic development.

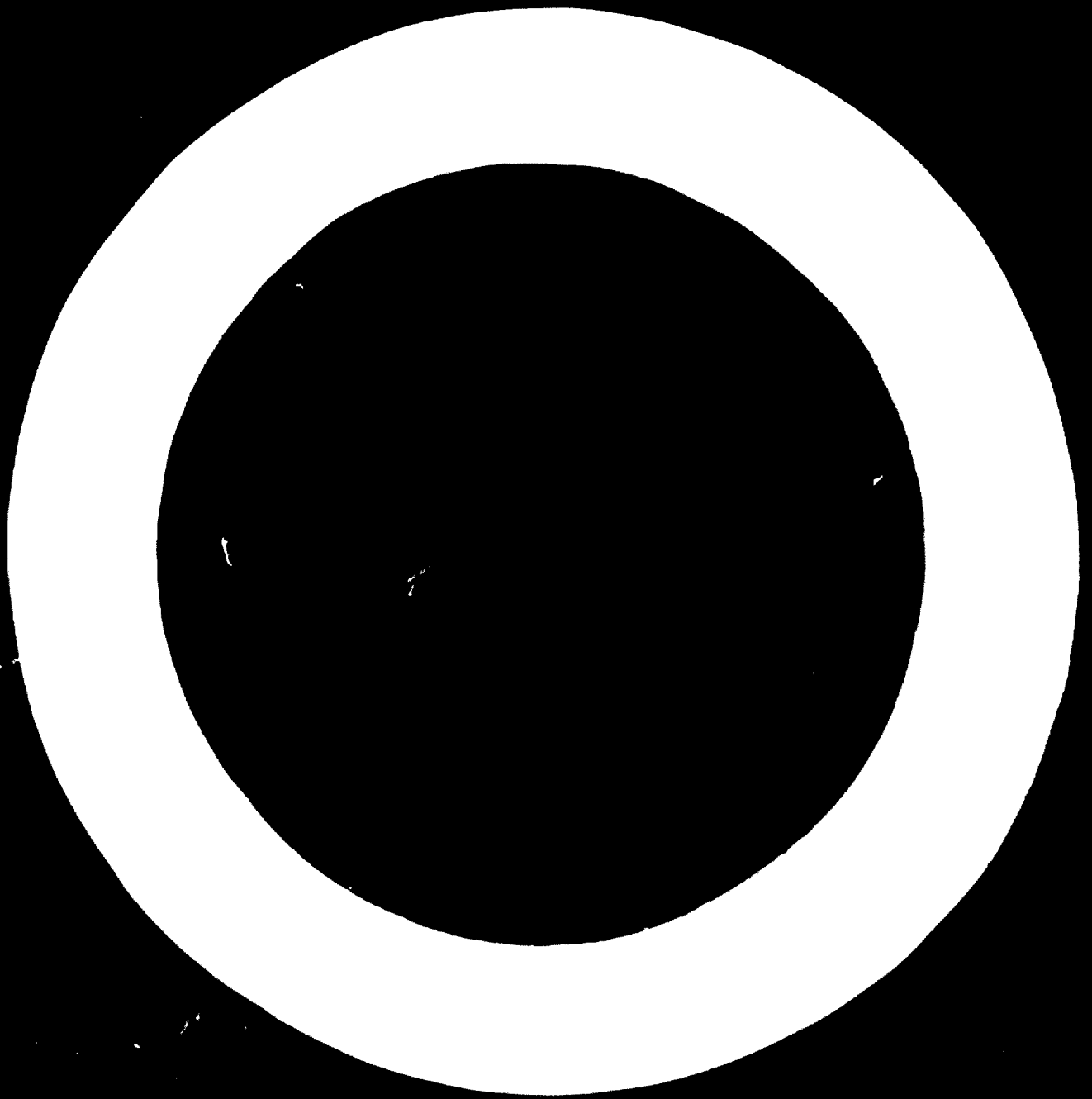
This development must, as we have already stated, be diversified and balanced; in other words, industrialization and an increase in agricultural output must go hand in hand. The establishment of factories ex nihilo is certainly attended by great difficulties, for which solutions are currently being sought; one of the major obstacles is what has been called the "technology gap" which separates the richer countries from the developing countries, due to the difference in their technological levels. Therefore, in order for the Third World to be able to progress towards a modern industrial civilization, it must either create its own technology or take advantage of the knowledge accumulated by the industrialized countries. In practice it seems that simultaneous recourse to both these methods is the best solution, since technology has to be adapted to local conditions and to the specific social structures of the developing countries.

Gentlemen, I am sure that your work will help to determine the ways in which the new countries can apply the technology utilized by the developed countries; you will thereby be making a useful contribution to the industrialization of the Third World. Many countries, of course, are not yet ready to attain what the economists call "the take-off point", but it is clear that progress will be made and that we shall have to be ready for this change in industrial relations between the richer countries and the countries which are behind economically at the present time.

In any case, development is the prime objective towards which we must all strive; the results of such concerted action will bring general relief and a guarantee for peace in the world.

Gentlemen, you are participating fully in this effort. I congratulate you on this and I wish you, on behalf of the French Government, every success in your work.

In conclusion, I should like to recall a statement made by Mr. Pompidou, President of the French Republic: "The struggle against under-development is not only a moral obligation; it is really in the interests of mankind as a whole, since otherwise the fatal day will come when there will be a confrontation between wealth and poverty".



STATEMENT BY MR. LEFRETTE, MINISTER PLENIPOTENTIARY, DIRECTOR,
UNITED NATIONS AND INTERNATIONAL ORGANIZATIONS DIVISION,
MINISTRY OF FOREIGN AFFAIRS

Monsieur le Ministre, Ladies and Gentlemen,

The reason why I have thought it useful to say a few very brief words after the masterly statement by the Minister of Industrial and Scientific Development, is simply that I wish to emphasize the importance which the Ministry of Foreign Affairs, which I have the honour to represent here, attaches to the work of the United Nations Industrial Development Organisation, and in particular to the discussions which are due to begin here today.

Indeed, this Meeting seems to me to be worthy of attention for two reasons.

* * *

First of all it seems important to me by virtue of the nature of the subject with which it will be dealing, the transfer of technology being one of the key issues in the industrial progress of all - I repeat, all - countries, regardless of their level of development and the nature of their economic and social system.

It is, of course, conceivable that industrial structures might be erected in a vacuum, practically sealed off from outside contributions - and this, indeed, has happened. However, it is impossible to imagine their development except at the cost of an enormous technical and human effort.

In fact, in the very great majority of cases, transfers of technology between countries are, like international trade, one of the decisive factors in the industrial growth of States.

Without being too paradoxical, one could go so far as to claim that in this development transfers of technology play an even more important role than trade, in so far as they are always accompanied by other contributions to the recipient countries in the field of training and technological know-how and thereby generate an enrichment of the creative potential of those

countries, whereas trade in goods primarily permits greater diversification in the satisfaction of wants, without necessarily contributing to the progress of science and technology.

In any event, as every country represented here has been individually able to experience, the choice of any particular method of transferring technology is not immaterial. There is a whole series of possible relations between the supplier and purchaser of technology, ranging from jobbing to the most elaborate forms of industrial co-operation, and including the "turnkey" delivery of factories, the installation of assembly plants, the establishment of subsidiaries, the sale of licences or patents and participation in a company's share capital.

Each has its advantages and, it must be admitted, its specific limitations and drawbacks. If it is further considered that for each of these ways of transferring technology there is an infinite diversity of commercial, legal, technical, financial and other variants, it will be appreciated that the panoply of ways in which transfers can be made is both extremely complex and extremely flexible.

Now (and this is the main point of my remarks) for each particular problem, that is to say for each situation defined in terms of what purchaser and supplier can respectively provide, there is a specific transfer formula exactly suited to what the supplier can offer and to what the purchaser can absorb. At a pinch it is conceivable that a correctly programmed computer could make an objective analysis which would serve to determine, in each particular case, the most appropriate arrangement and type of transfer for the operation envisaged.

It is indeed precisely this point of judicious equilibrium between the possibilities on the supply side and the needs on the demand side that suppliers and purchasers endeavour to arrive at when any contract is drawn up. However, while there is a good chance that this point of equilibrium will be arrived at when contracts are made between firms which have attained a comparable level of experience, when, on the other hand, one of the partners is an enterprise in a developing country it may be useful for that enterprise to have adequate information in the form of guidelines or a manual which would

enable it to choose between the various technological options offered by a given supplier. In this way costly errors, usually resulting from prejudices or fragmentary information, could be more easily avoided because the problem posed is better understood, to the advantage of both supplier and purchaser.

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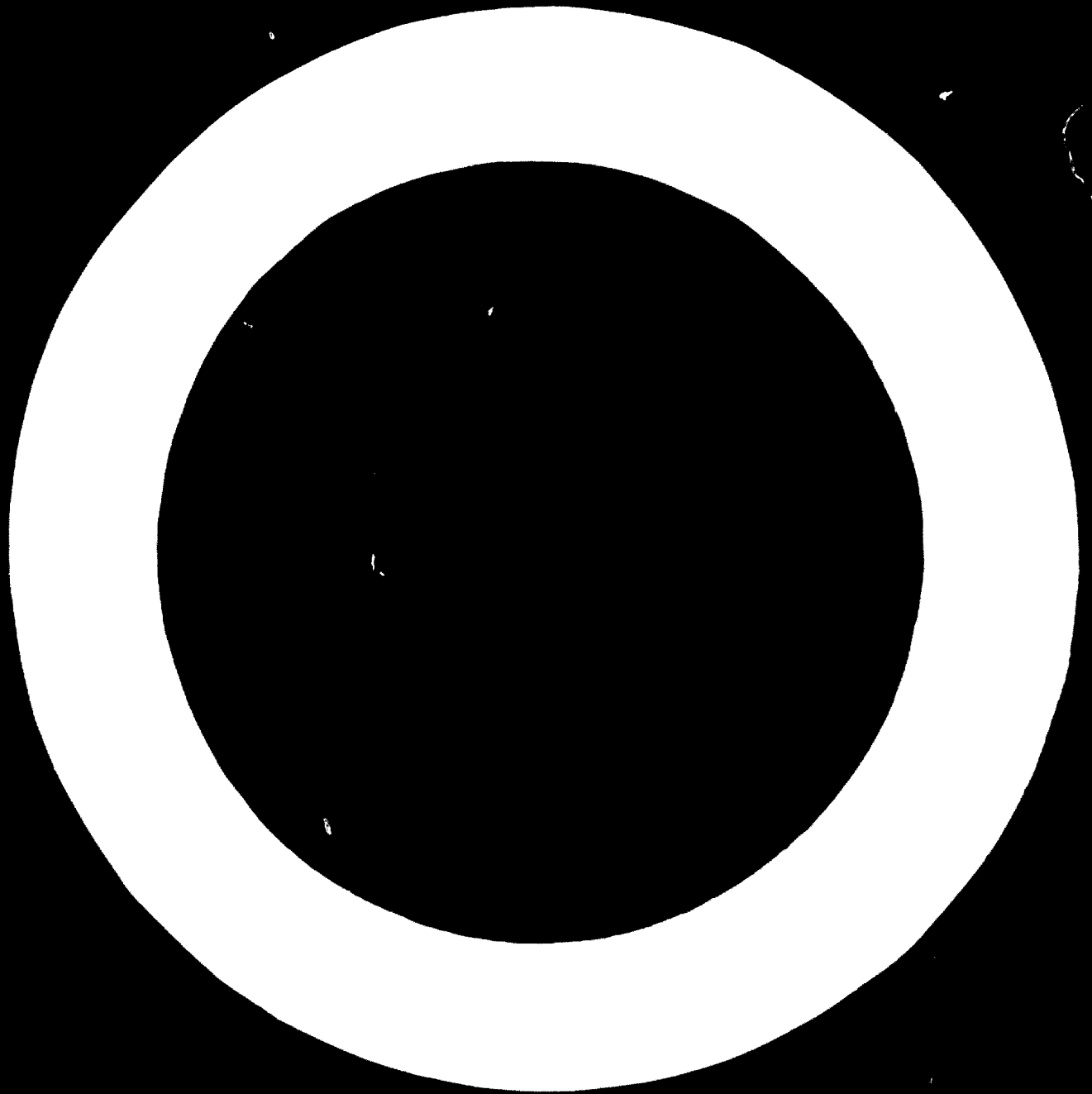
This reflexion leads me to the second reason why this Meeting seems to me to be important - namely, that during meetings of this kind a clear idea can be formed of the advantages and limitations of any given type or form of transfer.

UNIDO was, I think, quite right to choose a well-defined subject of limited scope - the transfer of technology through subcontracting and licensing agreements, with special reference to the automotive industry. It can thus reasonably hope to avoid controversies on principles and doctrinal disputes and try to concentrate discussion on certain specific objectives. For example, it might be useful to prepare a monograph on the matter under consideration, which could take the form of a kind of catalogue, complete with guidance on its use, listing the various types of subcontracting and licensing agreements referred to in the discussions, as well as the most commonly used clauses, and summarizing the arguments put forward on both sides to explain the scope or limitations of such arrangements.

It is in this very specific and pragmatic direction that UNIDO can, in my opinion, channel its activities with the greatest chance of success.

In addition, this approach has the advantage of being clearly differentiated from that of UNCTAD, which is primarily concerned with studying these problems of the transfer of technology at a higher level of generality - in other words mainly at the level of principles and in relation to aid and development problems.

Thus this Meeting, an isolated event but one which may, I hope, have the effect of a pilot operation, will help to make people better informed and to facilitate the identification of a number of mutually advantageous solutions likely to accelerate transfers of technology while respecting the legitimate interests of the countries and firms concerned.



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MESSAGE FROM MR. M. ADEL-BAIBAN,
EXECUTIVE DIRECTOR OF UNIDO

Monsieur le Ministre, Ladies and Gentlemen,

I should first like to say how very sorry I am that I cannot be among you today as I had intended. Since the date of the Meeting was fixed, several inescapable obligations have arisen which prevent me from leaving Vienna at this time; I hope you will forgive me. I have asked my colleagues to greet all the participants on my behalf.

I should like to thank the French Government for its invitation to UNIDO to hold this Meeting in Paris and for its very efficient co-operation in the preparation and organization of the Meeting. I am particularly appreciative of the honour of having Mr. Charbonnel, Minister for Industrial and Scientific Development, to open the gathering in person and preside over the first meeting.

I am also happy to be able to point out that a substantial part of the resources necessary for the holding of the Meeting has come from the voluntary contribution which the French Government decided, a year ago, to make to UNIDO, a gesture which it has just repeated in support of our activities in 1973.

This decision is a great encouragement to our Organization. Entrusted with the task of helping the developing countries in a field, that of industry, characterized by rapid changes and flexibility in methods of management, UNIDO is trying to adapt to this field the rules and procedures belonging to a system originally designed for other tasks. Our efforts at innovation are not always fully understood and we sometimes encounter certain difficulties of an administrative or financial character as we try to go forward. Consequently, the fact of having some resources of our own, even in modest quantities, opens up very valuable possibilities for action. I would add that in our continuing consultations both in Paris and in Vienna the French representatives show a seriousness, competence and imagination which we appreciate greatly.

This Meeting is an example of a type of activity which does not fit neatly into the traditional categories. An essential part of it will consist of business conversations between participants from developing countries and industrialized countries on detailed matters of common interest.

We believe that it is part of our role as an international organization to increase the effect of our very limited resources by mobilizing for the benefit of industry in the developing countries the various resources existing in the industries of the advanced countries: financial resources, but also technical resources, know-how, management methods and markets. This is the purpose of our "promotion" activities, aimed primarily at giving potential partners opportunities for contacts under the best possible conditions. We hope that this part of the Meeting alone will justify, for each of you, the travel and the time spent, and that the contacts made here will be the point of departure for mutually beneficial co-operation.

To increase the prospects for concrete and fruitful conversations, we decided, in agreement with the Ministry of Industrial and Scientific Development, that the Meeting should concentrate on a particular sector. The automotive industry, which has been chosen, is a sector in which examples already exist of interesting forms of international industrial co-operation likely to open up new possibilities for the future. We are happy to see that many developing countries have designated high-level industrial development officials as participants and that enterprises in the advanced countries have also responded to our appeal in large numbers. I have also noted with interest that several of these enterprises have decided to be represented by executives not only from the commercial departments but also from the purchasing departments. I see here a sign that they no longer consider the developing countries solely in terms of assembly lines designed to serve the local market but as possible suppliers of parts and sub-assemblies which can be incorporated in their own products.

This remark brings me to another aspect of this Meeting which distinguishes it from other promotion meetings organized by UNIDO in the past. At the earlier gatherings the main, though not the exclusive, goal was the promotion of investments, and much of the discussion related to means of financing industrial projects proposed by the developing countries. At the present Meeting the stress will be placed on the transfer of technology and know-how and on practical ways of achieving this through agreements between enterprises. Two types of relationship between enterprises are examined in more detail, namely international sub-contracting and licensing agreements; other more elaborate arrangements may also be mentioned. We are expecting a great deal to come out of the discussions here on these subjects. They will, I hope,

help governments and enterprises to draw up their strategies and adjust their policies with better knowledge of the possibilities open to them. They will be very useful, I am sure, to UNIDO and the other international organizations which are contributing to this Meeting, in helping them to plan their programmes and thus improve the services which they render to the developing countries.

The preparatory work for this Meeting has shown that there exist in the automotive industry a number of cases of agreements between enterprises in countries at different levels of development, sometimes with different economic and social systems; these agreements relate to the transfer of technology, production and markets and contain medium-term and long-term clauses providing for adjustments on the basis of the progress which the less developed partner is expected to make.

We hope that your discussions will enable lessons to be drawn from these examples, and show how they could be extended and generalized; we hope also that they will throw light on methods to be employed and institutional machinery to be envisaged for promoting the circulation of information, technical training and contacts which will lead to inter-enterprise agreements satisfactory to all parties.

In conclusion, I should like briefly to indicate the general situation in which, in my view, your Meeting should be seen, and which I feel gives it great importance. An organization like UNIDO which is responsible for industrialization assistance within the United Nations system has a duty to analyse the context in which its action takes place. At the world level, one cannot fail to be struck by the slow rate of progress, and by the increasing gap between industry in the advanced countries and in the developing countries, in regard not only to technology but also to management, organization and access to markets. There are still many difficult problems to be overcome on the road to industrialization. It may also be noted that financial and technical assistance in their present forms are meeting with declining interest in the donor countries and increasing disenchantment in the recipient countries. The spectacular manifestations of détente among the great Powers, highly positive for world peace and full of promise for increased co-operation between these Powers in the scientific, technical and industrial fields, bring out by contrast the relatively small influence of the developing countries in international affairs and the increasing political, economic and social difficulties which they face.

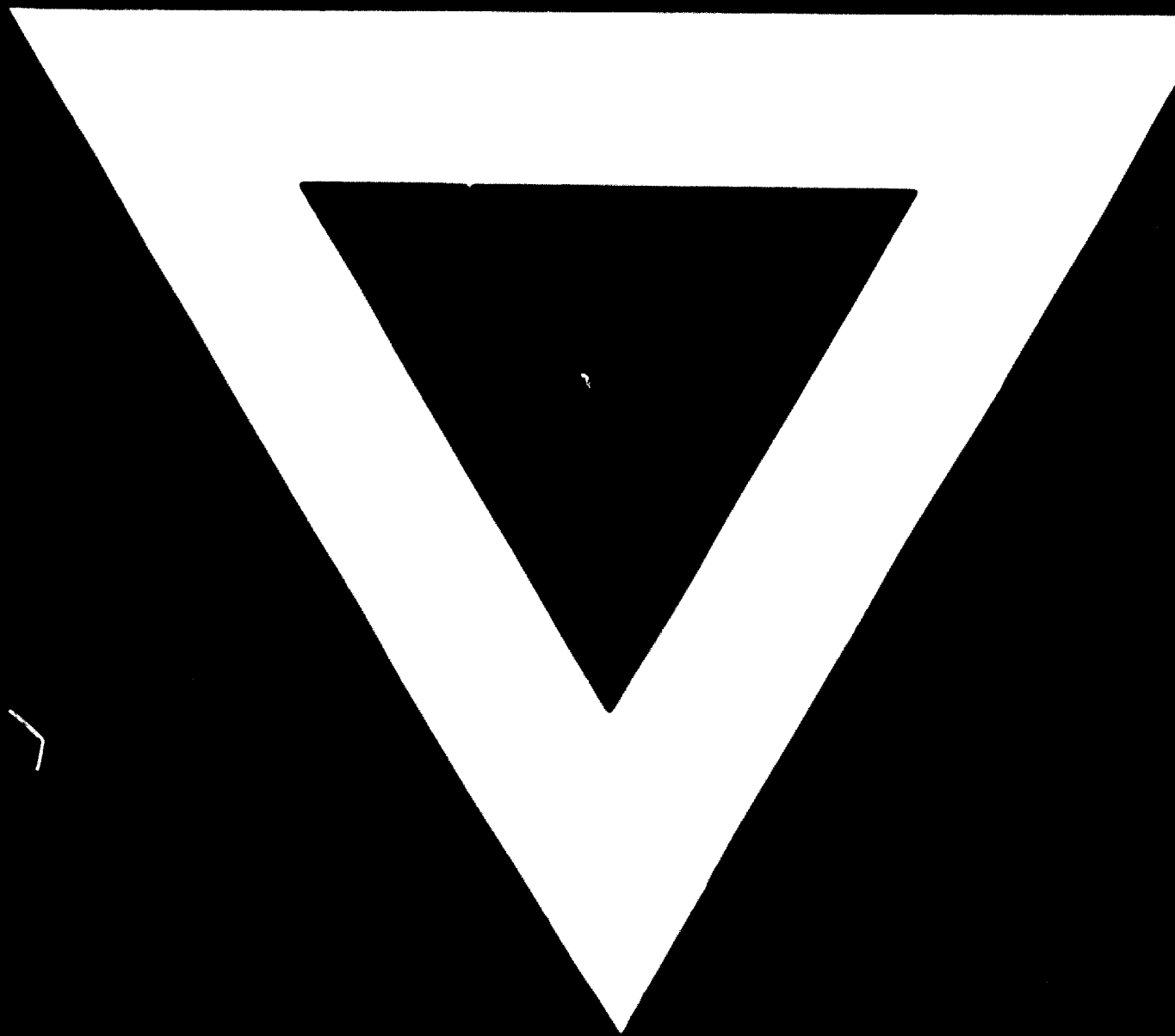
If, however, the analysis is carried further, other facts come to light which seem to modify the rather black picture that I have just rapidly sketched. Some developing countries have seen spectacular progress in recent years in terms of industrial growth and qualitative advance. In some sectors, developments such as those which I have mentioned above seem to indicate, at the enterprise level, a change in industrial relations and the prospects for co-operation. Various factors, such as labour costs, environmental problems and improvements in transport and vocational training methods may lead to significant transfers of production in certain sectors.

You will appreciate how important it is for UNIDO to have an understanding of these apparently conflicting facts, to evaluate their respective importance and to predict future trends.

Such an approach will enable us to plan our activities realistically, to utilize the limited resources entrusted to us in the best way and to give useful advice to countries which seek our help.

How can we obtain this essential illumination and information other than by discussions with those who are familiar with the problems of industrialisation as a result of day-to-day decisions in responsible posts in governments and enterprises? The Meeting which is opening today provides an opportunity for such discussions, directed towards concrete problems, limited in scope but of great significance. I am sure that we shall derive very valuable lessons from it and perhaps also guidance as to how this exchange can be continued and taken a stage further. I should like to thank you in advance and to wish you all success in your work.





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