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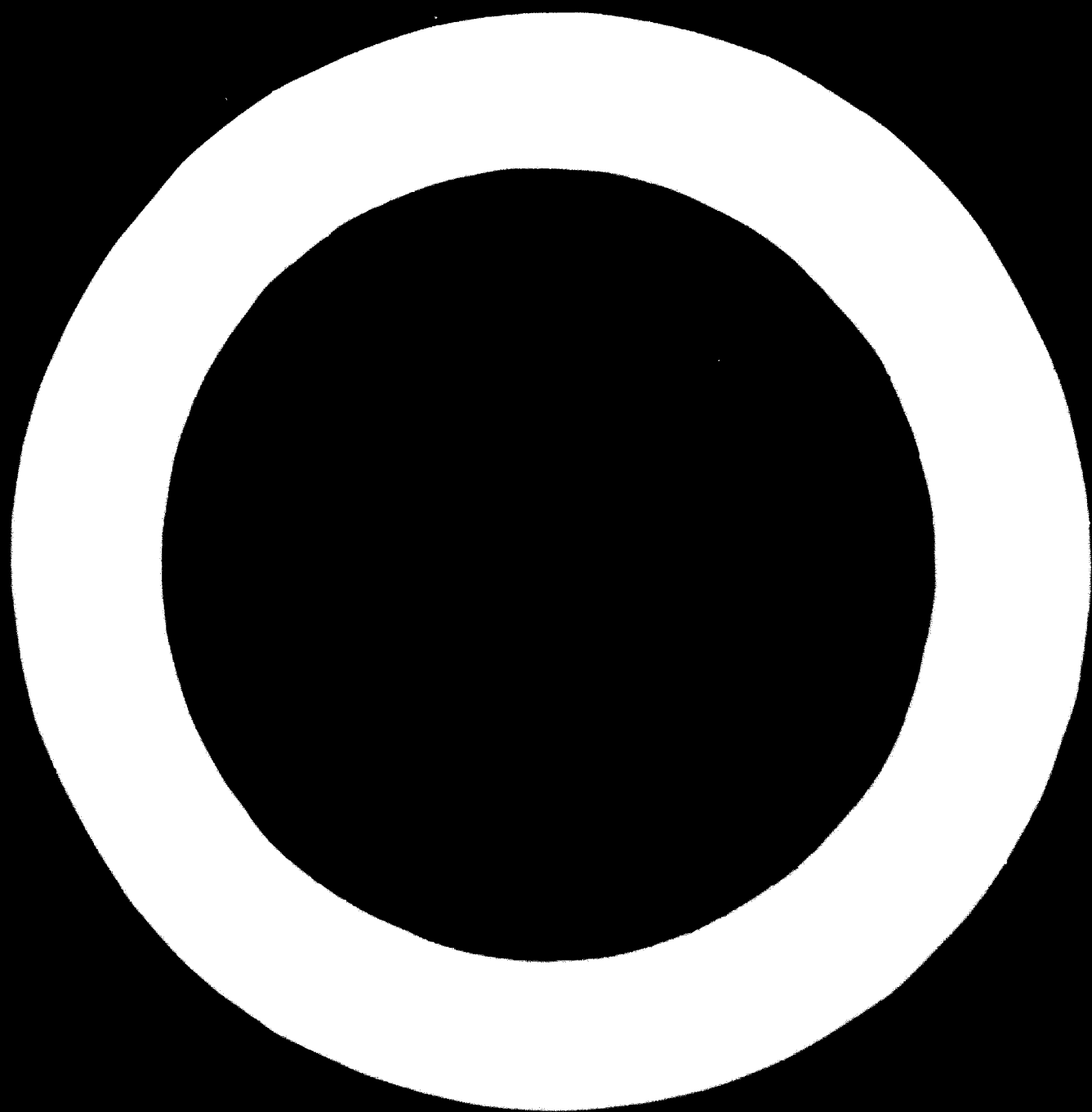
Expert Group Meeting on Licensing Practices  
Vienna, 28 August - 1 September 1972

FINAL REPORT\*

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## INTRODUCTION

The Meeting of the Expert Group on Licensing Practices was convened by the Executive Director of UNIDO and was held at UNIDO Headquarters in Vienna from 28 August to 1 September 1972.

Twenty-two experts from 14 countries and from the World Intellectual Property Organization (WIPO) took part in the Meeting.

The Meeting was opened, on behalf of the Executive Director of UNIDO, by the Director of the Industrial Technology Division. Welcoming the experts, he expressed the hope that in its deliberations the Expert Group would be able to reach conclusions, suggestions and recommendations which would assist UNIDO in orienting its future programme of work in the field of international licensing and in defining the role of institutional agencies to be established at a national level in developing countries for co-ordinating, evaluating and approving foreign licensing proposals.

Enrique Aguilar (UNIDO) acted as Secretary of the Meeting. The following persons served as members of the Expert Group:

- K. D. N. Singh (India), Chairman
- Roger Harben (WIPO), Rapporteur
- Eduardo P. Amadeo (Argentina)
- Venkata R. S. Arni (India)
- Ludwig Baeumer (WIPO)
- James C. Cain (United Kingdom of Great Britain and Northern Ireland)
- Kola Daisi (Nigeria)
- Joseph A. Di Pace (Netherlands)
- Atef N. El-Asab (Egypt)
- Mohammed El-Halfawy (Lebanon)
- Marcus B. Finnegan (United States of America)

Samuel Gienbocki (Argentina)  
Eberhard Guenther (Federal Republic of Germany)  
Hubert A. Janiszewski (Poland)  
Alejandro Nadal (Mexico)  
Olav Naper (Norway)  
Saburo Okita (Japan)  
Hans Thomsen (Norway)  
Alexander Vida (Hungary)  
Edward F. White (United States of America)  
Cyril G. Wickham (United Kingdom of Great Britain and Northern Ireland)  
H. Willinger (Netherlands)

The discussions of the Expert Group took place in working sessions based primarily upon nine papers prepared in advance by some of the experts (see annex ).

## RECOMMENDATIONS

At the conclusion of its discussion, the Expert Group adopted a number of suggestions and recommendations which had arisen from the discussions of the papers submitted during the working sessions.

### 1. Matters Recommended for Consideration by Governments of Developing Countries:

(a) For the purposes of facilitating the importation of technology and of ensuring that such technology is appropriate to the needs of the country and is acquired under reasonable conditions, governmental support, advice or regulation, or a combination of these, is required in developing countries;

(b) For these purposes, appropriate institutional arrangements should be established or strengthened;

(c) The functions of such arrangements can include:

(i) the identification of technology suitable to the stage of development of the country and its development goals;

(ii) the search for alternative sources of such technology, and the comparative evaluation of available technology;

(iii) the establishment of guidelines concerning the content and the conditions of licence agreements, or the approval of such content and conditions, taking into account the need to foster and protect the growth of national technological skills and services;

(iv) the encouragement of suitable foreign technology sources by establishing a favourable environment for licensing;

(d) Such arrangements should be closely linked to, or could include, institutions for applied research and development, consultancy and training, including training in management skills; these institutions should, in turn, be closely linked with industrial production units, possibly by earning a reasonable proportion of their operating costs from the provision of direct services to industry on a fee-earning basis;

(e) The nature of the institutional arrangements to be adopted, including the balance between mandatory legislation and administrative powers, the degree of centralization, the methods of channelling information and services, the allocation of responsibility for negotiation and the possibility of international co-operation will depend upon the traditions, industrial structure and stage of development of each country: in examining the question, the experience of other countries, including those with different economic and social systems, will be relevant;

(f) Government policies relating to acceptable levels and conditions of foreign participation in the equity of national enterprises either resulting from direct cash investment or acquired as compensation for the transfer of technology, should be made clearly known to potential licensors and licensees before projects are negotiated.

2. Matters Recommended for Consideration by Licensors and Licensees  
(including governmental institutions having an advisory or regulatory role in licence negotiations):

(a) The question of possible participation by the licensor in the equity of the licensee, and the proportion of such participation, should, although in some circumstances an inevitable link with compensation for the licensee must be recognized, be evaluated and negotiated separately from the evaluation and negotiation of the licensor's reasonable return from the transfer of his technology, taking into account both the possible benefit to the licensee in some cases of a financial commitment on the part of the licensor to the success of the project and the applicable government policies;

(b) Licensors and licensees should make themselves fully aware of the objectives and limitations affecting each other, including those which result from an analysis in business and technical terms of national development goals; particular attention should be paid to the risks for developing countries of acquiring, on the one hand, unproved technology and, on the other hand, technology likely soon to become non-competitive; the fullest possible use should be made by the licensee of national technological resources, including engineering consultancy;



(c) Separate components of a transferred technology "package" should be separately priced in the licence agreement. In order in particular to differentiate between proprietary and non-proprietary components with a view to clarifying the possibilities of further use by the licensee.

3. Matters Recommended for Action by UNIDO:

(a) Advice and practical assistance will be needed, at least temporarily, by developing countries in the establishment or strengthening of their institutional arrangements for the selection, acquisition and use of appropriate foreign technology; in particular, UNIDO could assist developing countries (i) in the development of national expertise, including expertise in the negotiation of licence agreements; (ii) by establishing a technical information pool in order to provide information in selected fields about alternative sources of technology; (iii) by furnishing information and appropriate references in respect of marketing, general business considerations, financial analysis and investment support;

(b) Intergovernmental organizations could assist, possibly by convening meetings of governmental experts and preparing working documents for such meetings, in long-term strategy planning of technological requirements for economic development, including regional planning where appropriate, with a view to increasing the national technological input to projects;

(c) Guidelines should be established to provide a framework within which reasonable licensing conditions may be negotiated;

(d) UNIDO could play a part in making known to licensors and to licensees the reasons for the attitudes and demands which, in the absence of knowledge of those reasons, could appear unreasonable;

(e) Further study should be given to the establishment of legal norms relating to restrictive limitations in licence agreements, with the aim of assisting in the acquisition of foreign technology on reasonable terms; for this purpose it was recommended that a working group be set up to study the question on the basis of documentation to be prepared jointly by UNIDO and WIFO.

## CONCLUSIONS

In reaching their conclusions the Expert Group recognized that licensing practices are a function of the motivations of licensors, of licensees and of developing countries in encouraging and controlling the licensing of foreign technology. Therefore both the papers submitted and the discussions based upon them extended to policy factors affecting licensing practices, and were not limited to questions concerning appropriate contractual terms. The Expert Group also noted that a publication entitled Guidelines for the Acquisition of Foreign Technology with Special Reference to Licensing Agreements<sup>1/</sup> was currently being prepared by UNIDO, and expressed the hope that certain of its suggestions and recommendations would be taken into account in the finalization of that study.

Several of the papers submitted to the meeting contained special suggestions relating to appropriate contractual terms. In the discussions particular attention was directed to conditions relating to the national law governing a contract, the obligation to communicate information on rights relating to improvements, the risks arising from infringement of third party rights and arbitration procedures. It was noted that these matters would be taken fully into account in the UNIDO Guidelines referred to above.

The Expert Group recommended that UNIDO should give consideration to means of achieving wide dissemination of the papers submitted to the Meeting, in a form approved by their author taking into account the discussions at the Meeting; such means could include publication by UNIDO and publication in professional journals. In this connexion it was noted that negotiations between licensors in developed countries and licensees in developing countries could be greatly facilitated by a profound knowledge of the objectives and limitations involved, and that in particular there was a lack of published information concerning the details of such objectives and limitations affecting developing country licensees and their Governments.

The Expert Group, as requested by UNIDO, gave attention during the discussion of all topics outlined in papers submitted to the Meeting to the question of the role of institutional agencies at the national

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<sup>1/</sup> Unpublished, issued as United Nations publication, Sales No. E.73.II.B.1.

level in the co-ordination, evaluation and approval of foreign licensing arrangements and to the role of intergovernmental organizations, with particular reference to UNCTAD, in providing appropriate assistance and support. In this connexion it was noted that suitable institutional arrangements could assist in the selection of foreign technology in a manner compatible with national goals for technological development, and could provide support and advice to licensees in developing countries in the negotiation of reasonable and appropriate conditions in licence agreements. Such support and advice appeared to be essential in the light of available evidence concerning restrictive conditions, contained in a large number of existing licence agreements, which would be of doubtful validity under the laws of the countries of the licensors concerned.

Emphasis was placed on the need to achieve a structure of licensing arrangements which would encourage, rather than impede, the utilization and growth of technological capacities within the country. In this connexion it was noted that "turn-key" projects, which were becoming less common, were generally undesirable when the stage of development in the country of the licensee permitted the utilization of national skills in design and construction, particularly in the field of engineering consultancy. It was also pointed out that in many developing countries, particularly those with a shortage of foreign currency and a growing level of national technological capacity, a thorough analysis of the financial and technical aspects of a project could lead to practical solutions wholly different from those which would be indicated in a developed country. The Expert Group, therefore, considered that studies should be published analysing such aspects and solutions including the implications of currency exchange rates, the impact of taxation and different methods of payment of compensation to the licensor.

The Expert Group noted the experience of countries with centrally planned economies with respect to administrative and legislative measures relating to licence agreements with foreign partners, whether they are sellers or buyers of technology. This experience was considered to be particularly significant for developing countries since, after the Second World War, centrally planned economies of Eastern Europe had faced problems

similar to those now confronting developing countries - namely the need to set up industries by first creating all the necessary basic requirements for this purpose, including the training of skilled personnel.

The administrative framework established in centrally planned economies in order to direct and co-ordinate international licensing activities of their industries appeared to be of particular interest. Several examples of such a framework - either grouping all branches of industry in one central agency or dividing the functions according to the various technological sectors - were considered.

As regards legislative measures, the Group took note of the various possibilities of granting titles for new inventions - either in the form of exclusive rights (patents) or in the form of inventors' certificates (recognition of inventorship and remuneration for any use made of the invention). Attention was also drawn to the interest developing countries might have in studying the socialist law of innovation as a means of promoting technical development.


ANNEX

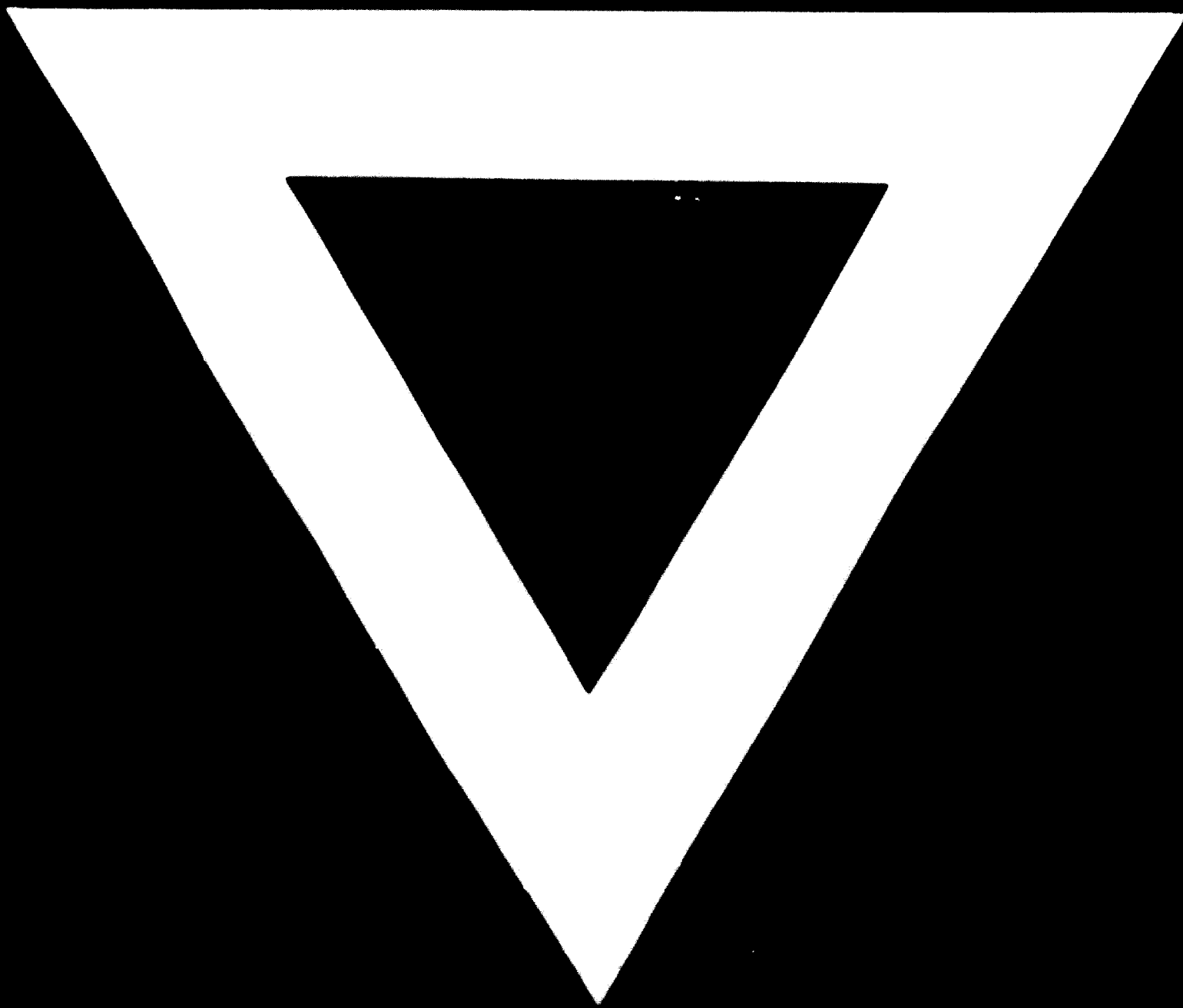
LIST OF PAPERS<sup>a/</sup>

- ID/WG.131/1 Corporate Policies on International Licensing  
Cyril G. Wickham, United Kingdom of Great Britain  
and Northern Ireland
- ID/WG.131/2 Protective Laws Concerning Licensing of  
Patented Technology  
Atef M. El-Azab, Egypt
- ID/WG.131/3 Licensing as a Part of the Investment Plan  
Edward P. White, United States of America
- ID/WG.131/4 The Effect of United States and EEC Antitrust  
Law on International Licensing and Licensing  
into Developing Countries  
Marcus B. Finnegan, United States of America
- ID/WG.131/5 International Licensing from and to Hungary  
Alexander Vida, Hungary
- ID/WG.131/6 Licensing of Engineering and Managerial Services  
Venkata R.S. Arni, India
- ID/WG.131/7 The Role of the Research Organization in the  
Acquisition and Adaptation of Foreign Technology  
Basil J.A. Bard  
(with a supplementary paper delivered by  
J.C. Cain in the absence of Mr. Bard)
- ID/WG.131/8 Institutional Regulation of Acquisition of  
Technology in Developing Countries  
K.D.N. Singh, Mexico
- ID/WG.131/9 Some Practical Considerations for the Evaluation  
and Negotiation of Licensing Agreements  
Mohamed El-Halfawy, Lebanon

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<sup>a/</sup> Individual papers available on request from:  
Industrial Institutions Section  
UNIDO  
P.O.Box 707  
Vienna, Austria.





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