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**ASSISTANCE
TO THE DEPARTMENT
OF INDUSTRY IN REVIEWING
AND DRAFTING/LEGISLATION/
CONCERNING
THE REGULATION OF
/TRADE MARK/AGREEMENTS,**

IB/PHI/75/012

PHILIPPINES.

TERMINAL REPORT

Prepared for the Government of the Philippines by the
United Nations Industrial Development Organization,
executing agency for the
United Nations Development Programme



United Nations Industrial Development Organization

United Nations Development Programme

ASSISTANCE TO THE DEPARTMENT OF INDUSTRY IN REVIEWING
AND DRAFTING LEGISLATION CONCERNING THE
REGULATION OF TRADE MARK AGREEMENTS
IS/PHI/75/012
PHILIPPINES

Project findings and recommendations

Prepared for the Government of the Philippines
by the United Nations Industrial Development Organisation,
executing agency for the United Nations Development Programme

Based on the work of Nils-Erik Hamrefors, expert on patent law

United Nations Industrial Development Organisation
Vienna, 1976

Explanatory notes

References to dollars (\$) are to United States dollars, unless otherwise stated.

The following abbreviations of organizations are used in this publication:

BOI	Board of Investments
CB	Central Bank of the Philippines
DI	Department of Industry
NSDB	National Science and Development Board

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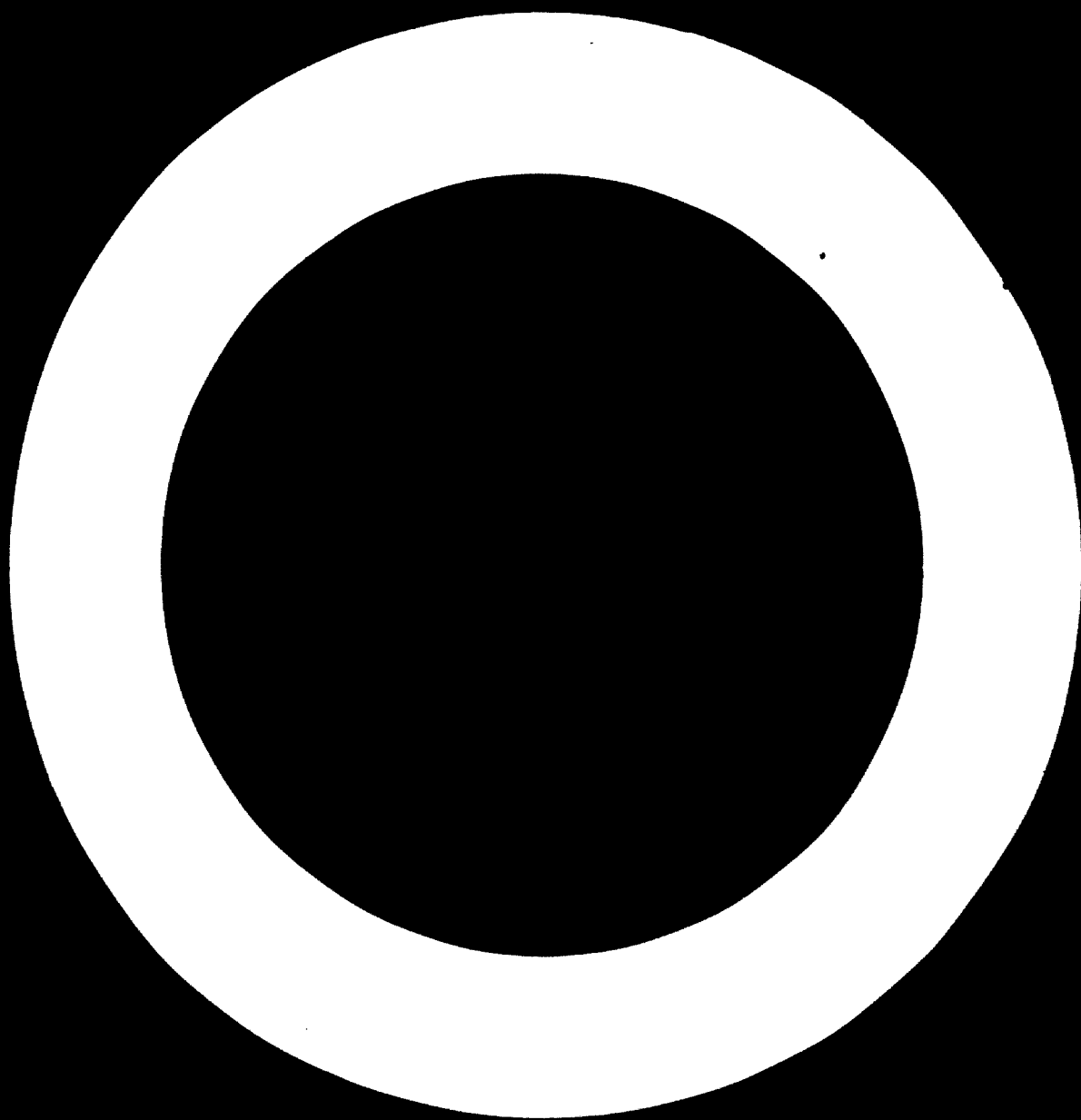
SUMMARY

This is the report of the project "Assistance to the Department of Industry in Reviewing and Drafting Legislation Concerning the Regulation of Trade Mark Agreements" (IS/PHI/75/012).

The expert analyses and comments on governmental practice and procedure in evaluating and approving technology transfers in the Philippines and reviews licensing aspects and problems generally with special regard to trade marks and patent and trade-mark legislation. The prerequisites for establishing local trade marks and registers are examined. Some observations are made on restrictive clauses in licensing agreements, and some general remarks are made about the transfer of technology in the Philippines.

The mission findings, comments and recommendations form part of each chapter.

The recommendations of the report are based on close co-operation and discussion with government officials and ultimately on long practical experience in the field of industrial property rights and licensing. Primary among them is the suggestion for the formation of a governmental body to be responsible for all aspects of technology transfer projects. The expert also suggests other administrative and legislative measures to be taken by the Philippine authorities to improve the over-all procedures related to technology transfer.



INTRODUCTION

This is the terminal report of a mission to the Philippines, "Assistance to the Department of Industry in Reviewing and Drafting Legislation Concerning the Regulation of Trade Mark Agreements" (IS/PHI/75/012). The mission was requested by the United Nations Development Programme (UNDP) Resident Representative in the Philippines on 15 August 1975 and approved by the United Nations Industrial Development Organization (UNIDO) on 5 September under the programme for Special Industrial Services. The project called for the assignment of an expert in patent law to the Department of Industry for six weeks at a cost of \$US 4,500.

As regards the inflow, evaluation and implementation of foreign technology in the Philippines there is no complex legislation. At present, three governmental bodies are mainly responsible for screening, evaluating and adopting projects and agreements on technology transfer, namely the Central Bank of the Philippines (CB), the Board of Investment (BOI) and the Department of Industry (DI). Certain specific guidelines for each evaluating authority have been introduced, such as CB Circular No. 393 on royalty/rental contracts and certain specific check-lists and guidelines on licensing agreements covering patents, trade marks and know-how used by the ad hoc commissions of the BOI. Generally, a CB circular regulates the financial aspects of licensing arrangements, while the BOI guidelines are particularly directed against the inclusion of restrictive clauses in licensing agreements.

The desire was expressed for a comprehensive, general evaluation of licensing projects and arrangements. In particular, it was felt that agreements involving use of trade marks on a royalty basis were placing a heavy burden on the Philippine balance of trade. Therefore, in early 1975, the Government of the Philippines requested the services of an expert on trade-mark agreements. The expert was to review the existing institutional and legislative machinery dealing with trade-mark agreements and legislation, to assist in drafting new legislation and guidelines and to comment on and make suggestions for developing local trade marks.

During his stay in the Philippines from 9 January 1976 to 8 February 1976 the expert worked at the BOI and DI and met and discussed with representatives of the CB, the Patent Office, the National Science and Development Board (NSDB)

and with members of a local law firm, Messrs. Ledesma, Saludo and Associates of Manila. He also interviewed local traders and small industry entrepreneurs. Finally, he attended a two-day seminar on technology transfer at the Development Academy of the Philippines (AP) at Tagaytay.

To solve the present problems relating to the transfer of technology in the Philippines there is a need for the concentrated handling of such projects by a permanent, independent governmental body on the basis of new instructions and guidelines. These should be designed to achieve in the first place an over-all estimation - legal, technical, financial and economic - of technology transfer projects.

In order to obtain effective and successful results in that connexion, much depends on the government bodies involved working in close co-operation and using present capabilities and expertise.

I. REVIEW AND ANALYSIS OF THE PRESENT SITUATION IN THE PHILIPPINES REGARDING TECHNOLOGY TRANSFER ARRANGEMENTS

Terminology

The term "technology transfer" is understood to include agreements and arrangements relating to the transfer and use of technical and commercial know-how, manufacturing processes and secrets etc., as well as the use of patents, trade marks, designs and other industrial property. Primarily, it refers to the transfer and right of use from foreign sources (licensors) to enterprises active in the Philippines (licensees). By "foreign" is meant all the technology originating outside the Philippines.

In the following sections the terms "licensor" and "licensee" are used in the widest sense in order to identify the parties of such technology agreements and arrangements.

Findings

Four separate government agencies are directly or indirectly involved in the evaluation of technology transfer projects; they are the Board of Investments (BOI), the Department of Industry (DI), the National Science and Development Board (NSDB) and the Central Bank of the Philippines (CB). For particulars regarding the activities of these bodies, see annex I. The final decision in the evaluation of technology projects seems to rest with the CB, the administrator of the Philippine monetary and banking system.

Each technology project is evaluated by each of these agencies on the basis of prevailing instructions. This means that a project is forwarded from one agency to another and is returned many times for further examination, opinion or review before ending with the CB for decision. The final release or grant of the application is then made by another agency, the BOI. This procedure involves considerable loss of time, double work and overlapping activities; still the result of the entire evaluation and examination procedure could be incomplete and unsatisfactory, since a technology transfer arrangement normally involves many other important issues that are not included and that cannot possibly be covered by specific agency instructions. Consequently, these important issues are not taken into consideration when evaluating the project.

The following findings have been made in this connexion:

- (a) Present regulations and procedures in evaluating technology transfer projects are inadequate and insufficient;
- (b) Likewise, the present governmental handling of such projects is inadequate, insufficient and time consuming;
- (c) There seems to be a need for new rules and practice in evaluating licensing projects;
- (d) There is need for an over-all expert assessment;
- (e) There is need for expertise.

The expert thus felt that his mission could not be restricted to the particular tasks indicated in the job description, for the reason also that a trade-mark agreement usually forms only a part of a technology transfer arrangement and consequently should not be treated separately.

In these circumstances, therefore, and at the request of the management of the BOI, the expert concentrated first on the problems referred to above in order to analyse further the present situation and to make some suitable proposals for changing present rules and practice in the general evaluation of technology transfer arrangements. To that end, prevailing regulations were first reviewed and analysed with regard to royalty contracts as contained in the CB Circular No. 393, dated 7 December 1973 (see annex II).

Initial proposals on evaluation and handling of technology transfer projects

Initially, the following proposals were made by the expert:

- (a) To establish new rules and regulations regarding the evaluation of licensing agreements;
- (b) To form and organize an independent, permanent governmental body exclusively dealing with technology transfer projects.

Since these proposals were considered to be of primary importance in the whole issue regarding technology transfer in the Philippines, the expert was then requested to make a rough outline of draft legislation for the creation of a separate and independent governmental body to be called the "technology board". This draft outline is included as annex III. In view of the short time covered by the mission, the expert was unable to elaborate further on this draft legislation. However, the main principles seem to have been accepted.

The possibility of concentrating the authority of a technology board in one single person, e.g. authorizing the secretary to decide on all matters regarding transfer of technology, might be considered. However, whether vesting such wide and exclusive authority in one person would be acceptable to the Philippine Government is unlikely. The proposal for the board might be a suitable compromise since it implies co-operation on a collegial basis between the governmental bodies already involved in evaluation and handling of technology projects and possessing skill and capacity in the field.

If the draft legislation proposed is accepted in principle by the governmental authorities of the Philippines, there still remains extensive work on its further elaboration, which should be undertaken in collaboration with UNIDO.

Recommendations

In sum, the following recommendations are made with regard to technology transfer to and within the Philippines:

(a) To establish new practice rules for evaluating technology transfer projects on an over-all basis, concentrating first on the needs of the Philippine economy and using basic principles in evaluation;

(b) To form a permanent, independent governmental body for handling and deciding on such projects, according to the draft proposal in annex III;

(c) To engage further qualified legal and administrative expertise; they should be practical people at management level.

II. LICENSING ASPECTS AND PROBLEMS IN GENERAL WITH SPECIAL REGARD TO DEVELOPING COUNTRIES

Communication

The licensing agreement for the manufacture and sale of goods or services between the licensor and the licensee is a complex matter. It seems to be the best form invented so far, however, for accomplishing the transfer of technology, whether technical or commercial, from one party to another. A fundamental aspect of technology transfer is establishing communication between the parties, their coming together, becoming acquainted and eventually learning to "talk each other's language". That might seem self-explanatory but its importance is often overlooked.

Experience has shown that nearly every negotiation is started in an atmosphere of mutual suspicion and prejudice. This applies also to well-established companies with highly developed organizations and techniques.

A wide gap must be bridged between the parties in a situation where the licensor is from an industrialized country and the prospective licensee is from a developing country.

Need for expert assistance for negotiating parties

In negotiations the licensee needs assistance from an expert in the field. That expert should be highly competent and have complete integrity with regard to the project and the parties involved. It might be an appropriate task for a United Nations body, e.g. UNIDO, to provide through governmental channels for such expert assistance on request of either party or both. In a mission to assist and support the negotiating parties by giving advice, he should be entitled to obtain assistance as well from governmental bodies in the country for which the licence project is intended.

An arrangement of this kind would have the following important advantages:

(a) The project would soon come to fruition because the relations between the parties would be eased and the concrete facts of the proposed project would be cleared up within a reasonable time to the benefit as well of the country needing the project. (Special attention should be paid to the fact that new technology has a short life.);

(b) The proposed licence agreement would not contain clauses contrary to well-established international licensing practice, since the parties would be informed by the expert on such practice. (Cf. the International Code of Conduct on the Transfer of Technology to be prepared by the United Nations Conference on Trade and Development (UNCTAD) and World Intellectual Property Organization (WIPO).)

Again the importance should be stressed of the expert's being entirely outside party and national interests so that his integrity could not be questioned.

Fundamental principle in licensing arrangement

It is fundamental that a licence agreement be so construed that it will give maximum output in implementation. Once the parties have entered into a licence agreement, they are joined in a mutual enterprise. An adverse effect on one party will also affect the other. As they are bound by contract, the contractual obligations will have to be well balanced against each other to provide a fair return for each party. Also from this viewpoint it appears necessary to have a neutral outside expert advising the parties.

Recommendation

As expert assistance seems necessary at an initial stage for the parties involved and for the developing country concerned, it is suggested that UNIDO form a bank of licensing experts able to give short-term assistance on short notice to negotiating parties through governmental channels.

III. TRADE MARKS IN LICENSING AGREEMENTS -
BACKGROUND OF THE PRESENT MISSION

Tying clauses

In the report by the ad hoc Group of Experts entitled Restrictive Business Practices in Relation to the Trade and Development of Developing Countries^{1/} page 4, attention is drawn to prevailing restrictive business practices in trade-mark licensing arrangements. In view of the fact that trade marks unlike patents and know-how have a permanent life and growing economic importance in proportion to increasing sales, the Group found that restrictions primarily of the following type would be inadmissible:

- (a) Restricting export by licensee of goods covered by a trade-mark licensing or franchising arrangement;
- (b) Tying the supply of imports of a product bearing a particular trade mark to the trade-mark owner.

However, these inadmissible tying clauses are not characteristic of or inherent in trade marks. The same type of tying clauses could be adopted in connexion with patents, technical know-how or any other closely defined licence object.

In the two laws enacted in Argentina in 1971, it is considered inappropriate to provide trade-mark licensing without know-how. This is also true under the Andean legislation, in which according to paragraph 25 of Decision 24 (d), clauses are inadmissible where payment of royalties are asked in respect of unused trade marks. Such a clause does not specifically have a bearing on trade marks, although it is justified per se.

The main problem with licensing trade marks is that the trade mark is the bearer of the good will and represents the image of the business. When a successful licensing project has become established, the trade mark is of growing importance. Thus, in the long term, when all patents have expired and technical know-how has become common property, there remains the good will of the trade mark on which the success of the business depends.

^{1/} United Nations publication, sales No. 74.II.D.11.

Conflicts of interest between licensor and licensee

At the stage when technical know-how is common property a conflict of interest often arises between the licensor and the licensee. The former is the owner of the trade-mark registration and responsible for the good will of the business vested in the mark when the contract was made. Consequently, contracts in most cases provide that should the agreement terminate for whatever reason the licensee is obligated not to use the trade mark further. The licensee on his part argues with some merit that he has established the trade mark in the licensed area and that it would be unfair to prevent him from using it further in the area. It may easily be imagined that it would cost him a heavy marketing investment to introduce an entirely new trade mark, most probably in competition with the licensor's trade mark, the use of which might be accorded to a new licensee.

This is a serious conflict of interest in which it could not truly be stated that any of the parties should be favoured to the detriment of the other.

Present solutions

To some extent an attempt has been made to solve this problem by stipulating in the agreement that the licensee shall always be entitled to renew the agreement and prolong it, provided that he has complied with the terms up to the time of the expiration of the initial period and of ensuing periods, and provided that he undertakes to pay royalties, which after the initial period might be reduced. However, while in that way the licensee would be safeguarded in continuing under the agreement, he has no other choice since it would still be too expensive for him to establish an entirely new trade mark for the product in the licensed area. The practical consequence is therefore that he prefers to continue under the agreement.

In these circumstances, it would not solve any problems for the licensee to restrict the agreement to a certain defined period; on the contrary.

In some other countries, for instance Brazil, another solution to this problem has been suggested and introduced. The primary stipulation is that the licensee, irrespective of the terms of the agreement, should be entitled

to adopt and use side by side with the licensor's trade mark a trade mark of his own or alternatively to use his own trade name. Thus, he could make an easier start in building up good will of his own, once the licence agreement is terminated and he is no longer entitled to use the licensor's trade mark. It may be imagined that a regulation of this kind would be less attractive to the prospective licensor, because he would envisage the possibility that once a successful licensing business had been established, the licensee would be very much interested in terminating the agreement and go on with the same business under his own trade mark and thus be free from royalty obligations. However, in a case in which the agreement and its implementation would give to the licensee some other material advantage, he might be interested in carrying on under the agreement and paying royalties. If, for instance, the licensee could be assured under the agreement of a further flow of technical know-how, the possibilities of making favourable purchases of raw materials by the intermediation of the licensor, or any other material advantages, he would probably prefer to continue under the agreement using the licensor's trade mark and paying royalties. Should the licensor fail to provide him with any material advantages, the licensee should be entitled under the agreement to terminate it on reasonable notice, so that he could then proceed under his own trade mark or trade name, which at that time would be to some extent established. The possibility just described is subject to the condition, of course, that no patent is still in force covering the licensed product; in that situation the former licensee would not be able to proceed with the manufacture and sale of the product without infringing the patent. Usually, however, after so long a time as envisaged here, the original patent should have expired, thus enabling any interested party, including the former licensee, to freely manufacture and sell the product.

Proposed solutions

In sum, it seems that with regard to licence agreements, when the licensor's trade mark is put at the disposal of the licensee and the licensee has to pay royalties for it, the following principal aspects should be taken into consideration:

(a) The licensor's trade mark should always remain the licensor's property;

(b) The interests of the licensee, who has established the licensor's trade mark in the licensed area, should be safeguarded in at least the following respects:

- (i) The licence should always provide for the licensee the possibility of renewing and prolonging the agreement so long as he fulfils his obligations under it, so that he may continue to use the licensor's trade mark if he wishes;
- (ii) Where there is no relevant objection, the licence should also give the licensee the right to use side by side with the licensor's trade mark a trade mark of his own. In any case the licensee should be entitled to identification and distinguishing marks to use as well as his trade name alongside the licensor's trade mark;
- (iii) After the expiration of the agreement the licensee should always be entitled to continue using his trade mark or trade name to identify the formerly licensed product, provided that the manufacture and sale of such product is admissible in view of prevailing patent rights;
- (iv) Therefore, in no case should there be a clause in a licence agreement to the effect that the licensee is not entitled to use his own trade name alongside the licensor's trade mark. In connexion, no clause should prevent the licensee from further manufacture and sale of the product, the patent protection of which has expired;
- (v) In no case should the licensee be bound by the agreement to use the licensor's trade mark when no patent, technical know-how or any reasonable commercial value is furnished to him. Also, in such circumstances the licensee should be entitled to terminate the agreement before the expiration date, if any.

These recommendations should be sufficient, bearing in mind that competent people are in charge of the formal evaluation of trade-mark agreements in the Philippines.

IV. PATENT AND TRADE MARK LEGISLATION IN THE PHILIPPINES

Present trade-mark situation

It was part of the task of the expert to analyse the present trade-mark situation in the Philippines and to comment on and make suggestions with regard to developing local trade marks. What the expert found in this regard may also apply to patents to some extent.

In order to obtain basic material on the subject, the expert studied prevailing trade-mark law and regulations at the Patent Office and conferred with officials. He studied with particular interest the actual use of trade marks in the country in stores and in advertising in newspapers and other media.

The expert had the opportunity through the intermediary of BOI to have direct contact with small industries and enterprises and to be made aware to some extent of their problems in the trade-mark and patent field. Finally, he visited a law office in Manila practicing trade-mark and patent law locally and internationally.

Legislation and Patent Office handling

Trade-mark legislation in the Philippines is primarily based on the same principles as the prevailing Lanham Act of the United States of America of 1946. Owing to the fact that the right in a trade mark is based on its adoption and use preceding the application for registration, Philippine applicants as well as United States applicants are burdened with extensive paper work, such as petitions, statement of use, declarations to be sworn before a notary public and finally an application form to be filled in and signed. For non-residents an appointment of agent is required. At present, it is believed that the United States and the Philippines are the only countries in the world requiring actual use of the trade mark before filing the application. In other countries, applicants must merely file a simple application showing the mark and the goods or services involved. In some countries a declaration is required to the effect that the applicant declares his intention to use the mark (e.g. the United Kingdom of Great Britain and Northern Ireland). In some countries the right to a trade mark is based entirely on the registration or alternatively on prior substantial use without registration, but in no case on its adoption and use before the application is required.

With regard to foreign applicants it is believed that the United States will have to dispense with the requirement of use before the application in view of the TRT Arrangement, which envisages no such rule. It would be to the advantage of Philippine applicants to have the present Act amended to eliminate the requirement of previous use of the mark before filing; this would automatically result in simpler application procedure and handling. The British legislation and practice in the field is of outstanding quality. Now the United Kingdom legislation on trade marks is being revised. It is felt that an approach to the British Committee might be useful to the Philippine authorities as well as to legislators in other countries in seeking greater simplicity and easier handling.

Actual use of trade marks in the Philippines

The Philippine market is very much dominated by trade marks of United States and Japanese origin, which may reflect the present trade situation. However, it seems that local marks and brands are increasing rapidly both in advertising and actual use, although this fact does not seem to be reflected in the number of applications filed by Philippine traders and firms in the Patent Office.

Although for understandable reasons it has not been possible to make a thorough survey, it has been apparent from visits with small enterprises that they thought there was something useful in trade marks and patents. They had no information on the subject, but they demonstrated a great desire to learn. To date, however, they have not known where to go to obtain such information.

There is then a lack of communication, information and education.

Trade mark and patent agents

Trade mark and patent lawyers seem to be few (only 600 out of 30,000 practicing lawyers in the country). There are no lawyers specializing in trade marks and patents only. Even those within the Patent Office have no technical expertise. Recently, it has become possible for Philippine nationals to file patent applications abroad. Such applications are subsidized by the NSDB's Inventors' Commission, but it is doubtful whether small industries in the Philippines can obtain information and subsidies regarding trade marks anywhere.

Recommendations

In view of the fact that the BOI and the DI have good expertise in the commercial and technical field and that they have adopted an active policy of passing on information on investments and technology to small industries, it would fall within their responsibility to engage UNIDO expertise on long-term mission to provide information and assistance in trade-mark policy, marketing, registration, licensing, etc. among small enterprises. The same applies for patents as well and possibly for the entire field of technology transfer.

Local trade marks and registers

In view of the problems of geographical communication in the Philippines and in order to encourage the protection of local trade marks, the establishment of regional registers in each province might serve a useful purpose. For a local dealer or manufacturer it is not necessary to obtain protection for the entire Philippines.

It would seem advisable to start from the local level by training competent people, disseminating information to all interested circles and then establishing local registers. This would require both legal expertise and amendment of the present Trade Mark Act, the revision of which in any case seems desirable for reasons already indicated above.

V. RESTRICTIVE CLAUSES IN LICENSING AGREEMENTS

In the review and analysis of licensing agreements restrictive clauses are taken into special consideration; this is also true in all developing countries. As this question has been dealt with thoroughly and is at present being closely investigated by UNCTAD, there is no reason to comment further on the subject here. Nevertheless, it might be pointed out that with regard to licensing arrangements the entire project and its inherent merits are of primary importance and the evaluation of restrictive clauses, although important, should be secondary. In some cases the entire agreement could be restrictive for the licensee without specific restrictive clauses.

Recommendation

Therefore, it is proposed that the examination of restrictive clauses should always be preceded by an investigation by commercial and legal experts of the whole agreement and its inherent merits.

VI. GENERAL REMARKS ON THE TRANSFER OF TECHNOLOGY IN THE PHILIPPINES

The expert took part in a seminar at the Development Academy of the Philippines (AP) at Tagaytay, on 16-17 January 1976, in which the participants represented various governmental and regional bodies of the Philippines. The unanimous findings of these participants were that there was a lack of basic planning, communication, co-ordination and administration of technical projects in the Philippines, mainly at the local level. Therefore, the principle recommendations made by the participants were:

(a) To achieve better communication, planning and co-ordination of projects at both top and grass-root levels;

(b) To acquire technical and administrative expertise for organising and training at the local level. The experts should be well-qualified, practical people.

These findings of the Seminar coincide to a very great extent with the findings of the present mission.

Annex I

INTERLINKING OF FUNCTIONS OF PHILIPPINE GOVERNMENT
AGENCIES IN TRANSFER OF TECHNOLOGY

The Board of Investments (BOI), the Department of Industry (DI), the National Science and Development Board (NSDB) and the Central Bank of the Philippines (CB) are four governmental agencies that are involved either directly or indirectly in transfer of technology. In pursuing one common national goal, which is the attainment of a stage of self-supporting industrial and economic development, each has its own set of functions to suit its special field of activity and its specific objectives. These functions are not totally distinct, however. In fact, they may overlap at times such as in the transfer of technology.

Generally, the role of the Government in the transfer of technology is both promotional and regulatory; promotional in that its responsibility consists of identifying major technological gaps, prescribing priorities regarding principal fields in which technological inflow is considered particularly necessary, and offering incentives for technology transfer in specific fields where technology gaps exist. The regulatory function of the Government is to formulate policy to govern the negotiation of technology contracts.

The following are promotional functions of three government agencies, the BOI, DI and NSDB.

The primary objective for which the DI was created is to "guide the development and operation of industry along directions most contributory to the national goals as domestic and international conditions make appropriate". To carry out this objective, it "assists investors, foreign or domestic, in desirable industrial projects, whether registrable with the BOI or not, to have their papers processed with dispatch by all government offices, agencies, instrumentalities and financial institutions".

For its part, the BOI is guided by its policy of "encouraging Philippine and foreign investments in projects that develop agricultural, mining and manufacturing industries, which increase national income at least cost, increase exports, bring about greater economic stability, provide more opportu-

nities for employment, raise the standards of living of the people and provide for an equitable distribution of wealth". Also, the BOI "welcomes and encourages foreign capital to establish pioneer enterprises that are capital-intensive and would utilize a substantial amount of domestic raw materials, in joint venture with substantial Philippine capital". The BOI is able to implement the above policies by offering incentives to investors, whether Filipinos or foreigners, but only after a careful and thorough evaluation of the projects involved.

The NSDR, on the other hand, as the primary scientific agency of the Government, "co-ordinates and promotes co-operation in scientific and development activities", and "initiates and facilitates arrangements for scientific and technological aid from domestic private sources and foreign sources and for the exchange of information among local and foreign institutions and scientific investigators".

The regulatory functions of the above-mentioned agencies are, for DI, "to encourage but at the same time to regulate the establishment, growth and expansion of large-scale industries and firms within these industries".

A major part of evaluation procedure in determining viability of projects for BOI registration for incentive availability involves technology. Thus, the BOI regulates entry of foreign technology by first evaluating and screening technology being transferred. Besides seeing to it that technology is being transferred at a reasonable cost and on acceptable terms and conditions, the BOI determines whether the inflow of foreign technology meets the country's basic needs and covers major technological gaps.

The regulatory function of the NSDB covers "the formulation of consistent and specific national scientific policies, and the preparation of comprehensive technological programmes which shall be observed and implemented by the Government and all its agencies and subdivisions". Also, the NSDB shall "review and analyse scientific and technological projects being undertaken and shall take such measures as may be necessary to accomplish the objectives and policies involved in these activities". To a certain extent, it would seem that the above activity of the NSDB coincides with that of the BOI in the sense that the BOI also undertakes the review of projects, taking into consideration various aspects including the technological aspect.

The OB, it seems, is involved with transfer of technology in a very distinct and decisive way. As the administrator of the monetary and banking system of the Philippines, its main concern with the transfer of technology is the safeguarding of precious foreign currency reserves for the maintenance of monetary stability in the Philippines.

Annex II

**MEMORANDUM ON CENTRAL BANK CIRCULAR NO. 393: REGULATIONS
FOR ROYALTY/RENTAL CONTRACTS**

Circular No. 393 includes the following sections:

(a) Section 1 regulates the scope of the Circular where the use of trade marks, copyrights, patents and technology or furnishing services as well as rental/distributor royalty contracts are involved;

(b) Section 2 provides for the necessity of approval and registration of contracts of the Central Bank;

(c) Section 3 contains the requirements for such approval and registration, providing in brief that the duration of a contract shall not exceed five years, that the contract shall not prohibit export for the licensee and, finally, that royalties for technical know-how including use of trade marks, patents etc. shall not exceed 5% of the wholesale price of the commodity manufactured under the agreement. Where only the use of a foreign trade mark or trade name is involved, the royalty is not to exceed 2% of the said wholesale price. Only in so-called "meritorious cases" are exceptions allowed to the above rules.

Further regulations regarding remittance of royalties are contained in the Circular; however, they are not relevant to this discussion.

Comments of the expert

It appears that rental contracts would not fall under the scope of these regulations, unless there is actual transfer of technology involved. However, they should be included since rental/distribution contracts should be viewed with considerable suspicion because many times they are used to hide the real purpose of the business relations of the parties. If it cannot be proved that such a rental/distribution contract actually involves a substantial and relevant business project, then the contract should be refused.

A general comment on the regulations of the Circular is that it seems to start at the wrong end by enumerating the particular terms or conditions of the contract (time of contract, royalty rate etc.). Instead, the main regulation should be that every royalty contract should be evaluated on its inherent merits including the appreciation of all present actual circumstances, in particular the need for the proposed technology for the Philippines economy and progress as a whole. If that important condition is not fulfilled, then the project should be refused from the beginning, and there would be no more point to evaluating different clauses, royalty rates etc. in the agreement.

Only in a case in which a serious and useful concrete purpose is intended with the proposed agreement should further evaluation be undertaken of the specific clauses of the contract. That would be the case of a project deemed useful for the Philippine economy and progress as a whole in which greater flexibility with regard to evaluation of the specific terms of the agreement would be recommended.

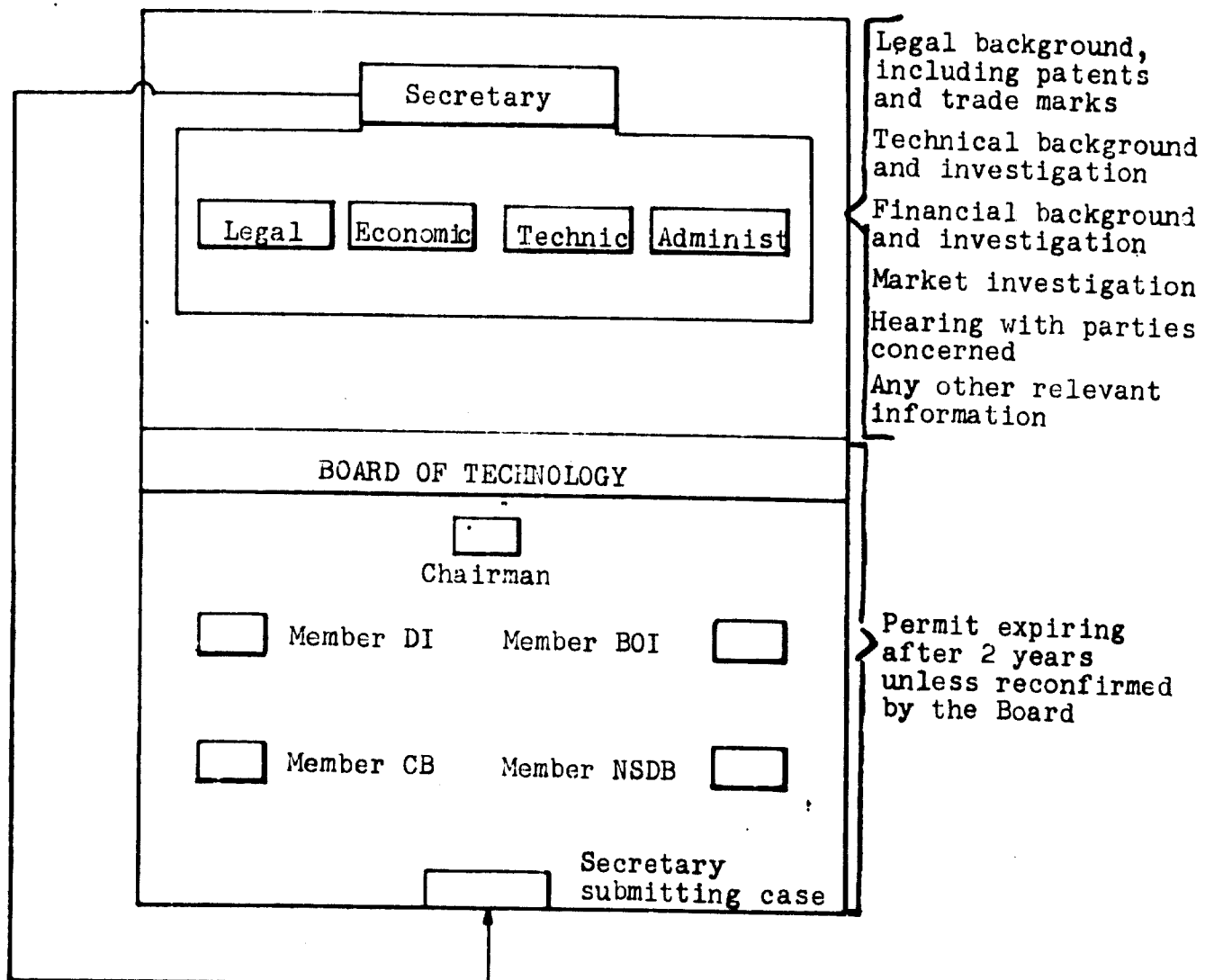
However, in order to enable an all-round investigation and evaluation of each separate project as proposed above, and also with a view to concentrating the handling, planning and co-ordination of technology transfer projects, the expert proposes that a permanent governmental body be formed. A sketch of the proposal (see appendix A) gives the organization and purpose of such a permanent body.

Finally, to clarify his statements the expert has prepared a draft proposal on "Practice in evaluating licensing agreements" (see appendix B) which also needs further elaboration and amendment.

Appendix A

DRAFT PROPOSAL ON PERMANENT GOVERNMENTAL BODY FOR EVALUATING AND
DECIDING ON TECHNOLOGY TRANSFER PROJECTS

PREPARATORY BODY



In evaluating the project and when preparing the case the Secretary is responsible for obtaining all relevant information in order to enable him to form an opinion of his own, thereby paying particular attention to the following aspects:

- (a) The need of the Philippine national economy for the product/service;
- (b) The financial and technical resources of the parties to ensure reasonable prospects of the project;
- (c) Terms of agreement to be reasonable and not contain clauses contrary to established international practice. Special attention should be directed against restrictive clauses.

Appendix B

DRAFT PROPOSAL ON PRACTICE IN EVALUATING LICENSING AGREEMENTS

1. Need for the product/method involved with regard to Philippine market situation and to Philippine economy and progress as a whole. Special attention should be attached to the probability of the project being able to create a base industry or enterprise in the Philippines with future export capability. If the product/method or technology involved cannot be shown to satisfy basic Philippine needs, then the application should be refused. Over-all estimation to be made by a special governmental body having first obtained opinions from experts both inside and outside the Government.
2. If the project fulfils or is likely to fulfil the basic requirements under 1, further evaluation of the project should be undertaken by the special governmental body taking into consideration:
 - (a) In the first place the inherent merits of the technology offered in view of existing technological level;
 - (b) If a patent is involved, applicant(s) should show evidence of the inventive level and the novelty of the invention, e.g. by submitting copies of corresponding patents in leading industrial countries, such as the Federal Republic of Germany, Japan and the United States;
 - (c) If a trade mark is involved, attention should be paid to whether there is good will attached to it in other countries to enable a quicker establishment of the mark in the Philippines. The question is will licensor allow the licensee to use his own mark or trade name alongside his trade mark?
 - (d) There are other important questions to be put in this connexion to the licensor. If you are operating with exclusive licensees in other countries, would it be possible for the Philippine licensee to undertake supplementary deliveries to such licensees, if the situation should arise? Are you able at your end or through other licensees to furnish a continuous flow of know-how as well as improvements and/or developments of the product/method involved? Will you offer the possibility of cross-licensing to the licensee should the occasion arise? Are you able to support your licensee by offering or inter-mediating for favourable purchases of raw materials or offering any other material advantages besides the normal transfer of technology involved in the project? Will the licensee be allowed at any time to visit your factory and obtain any information required for the project? Will any technology obtained by the licensor outside his company and relating to the project benefit the licensee as well? Are you willing at the request of the licensee to prolong the agreement for future periods, provided that the licensee fulfils his obligations under it? For how long a time? Would you consider lower royalties for these extended periods of the agreement? If the licensee produces and sells well over estimated quantities in the agreement, would you favour him with lower royalties for the exceeding parts of the sales?

3. These are all practical questions designed to verify the intentions of the licensor and the scope of the whole project. When that evaluation has been made it then remains to evaluate the specific terms of the agreement, thereby attaching principal importance to such restrictive clauses, which inherently are not admissible under international practice (Cf. UNCTAD and WIPO rules to be adopted).

4. Less importance should be attached to the rates of royalties, minimum royalties, contracting period etc., which are supposed to reflect the mutual understandings of the contracting parties. Only in the event that the royalty rate or any other specific term is unreasonable to the licensee should objection be made to enable a renegotiation of the contract.

5. There follows:

- (a) Grant of the application;
- (b) Refusal with possibility for the parties to renegotiate or amend the agreement.

Annex III

DRAFT LEGISLATION ON THE TECHNOLOGY BOARD AND OFFICE

Whereas, the transfer of useful technology, the proper evaluation of such technology, the dissemination of it and the effective use of it in Philippine industry and commerce are of vital importance for Philippine progress and prosperity, and

Whereas, several governmental bodies, each of them being competent in its particular field, are now separately handling and evaluating such technological transfer with special regard to licensing agreement, and

Whereas, the matter of technology transfer and all arrangements made in that connexion usually involve different vital aspects, the principal one being whether proposed technology is useful for Philippine economy and progress seen as a whole, and

Whereas, it is not reasonable and practical to make such over-all evaluation and judgement of technology within separate governmental agencies, and

Whereas, the concentration of all information and evaluation of technology projects are deemed necessary with a view to avoiding double work, overlapping of services and loss of time and also with a view to achieving a concentrated all round evaluation of all aspects involved in technology projects, and in order to make all these useful achievements, through the united efforts and co-operation of governmental expert bodies obtaining advice as well from all other expertise sources available in the fields of various technology;

Now therefore, it is decreed to form within the administrative frame of the Department of Industry an independent office for evaluating and deciding on all technology projects, to be named the Board of Technology. That Board shall consist of members from the Department of Industry, Board of Investments, Central Bank, the National Science Development Board and the Board of Trade, one from each body, and appointed by the Chief of such body. As Chairman of the Board is hereby appointed with as Deputy. Each member of the Board shall have one vote. In case of equal votes among

the Board members, the decisive vote shall be that of the Chairman. The Board shall meet and decide on the grant or rejection of technological projects submitted to it.

Unless otherwise called by the Chairman, the Board shall meet once every fourteen (14) days for ordinary session. For its assistance and with the responsibility to prepare all matters to be submitted to the Board, a Secretariat shall be established to be headed by a Secretary who is competent in administrative, legal and economic matters.

All matters relating to transfer of technology and falling within the competence of the Technology Board shall first be handed over to the Secretary for thorough and over-all estimation and evaluation according to instructions established by the Board. It rests upon the Secretary to obtain from any expert sources, whether governmental or not, all relevant factual information on the matter. He shall not be bound by any directives in that respect. It furthermore rests on the Secretary to compile all material thus obtained, to form an opinion of his own and to report without delay to the Board in session, submitting the case together with his recommendations.

Where it is obvious that a technology case referred to him lacks merit or contradicts the instructions, the Secretary shall be entitled either to dismiss the matter or advise the party or parties involved, to revise the matter or renegotiate the proposed arrangement. If the party/parties still insist on the matter being submitted to the Board he/they shall be entitled to do so, at the risk, however, of a final refusal of the project.

The Secretary shall be assisted by an office staff of sufficient competence and capacity serving also to take minutes at Board meetings.

The Board shall make its decision on each case submitted to it before the session is ended. Having so resolved, the decision shall be communicated to the party/parties involved without delay.

The decision of the Board is final and cannot be appealed. For the purposes of the Decree, any contractual relation between parties involving right of use with regard to technical and/or commercial know-how, patent, design, trade mark, trade name or any other kind of industrial property right shall be deemed as a technology matter, including also rentals, leases, exchange of services and material in any contractual form and involving remuneration of any kind.

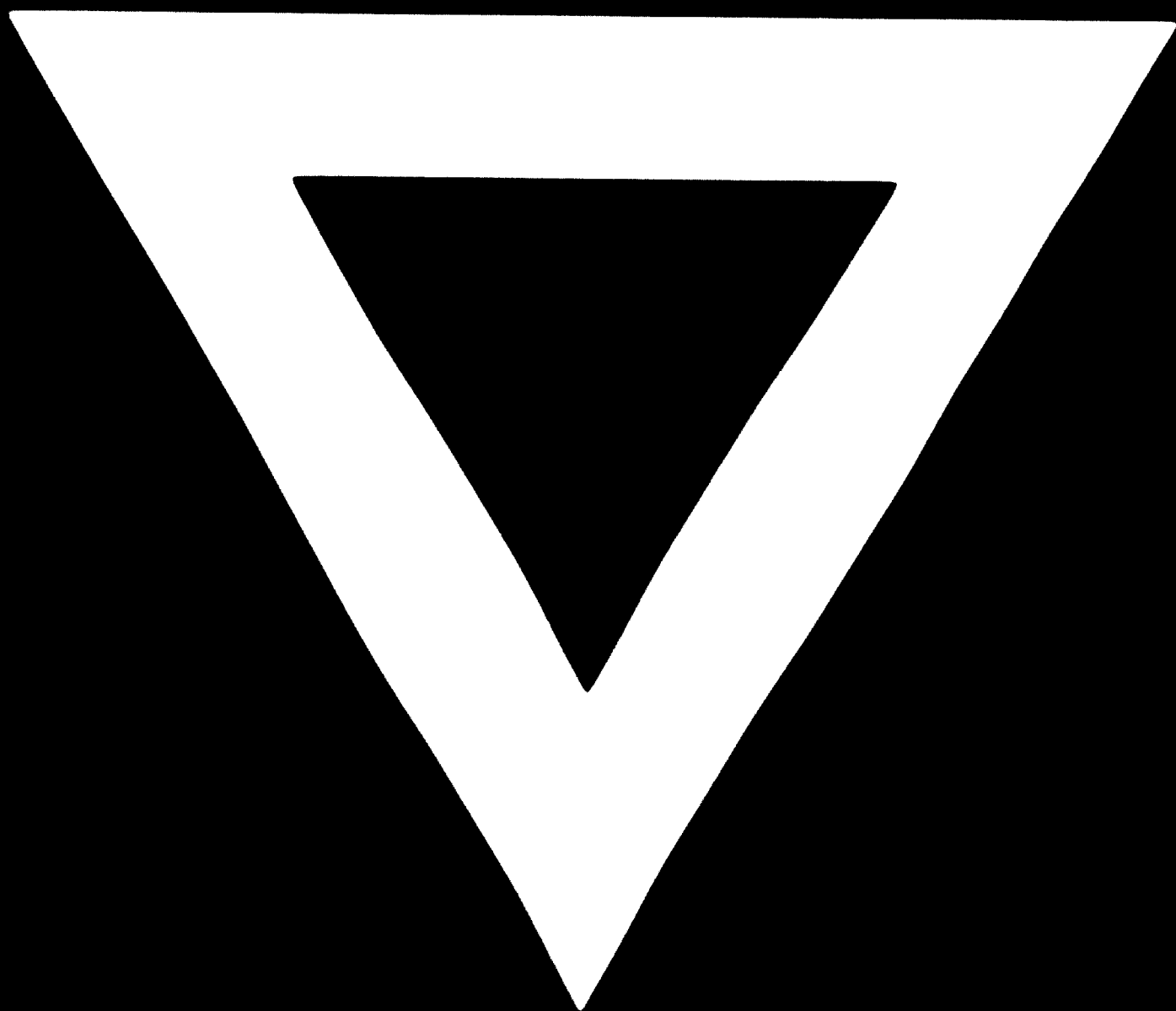
In order to be legally effective all such contracts and contractual relations require the grant of the Board of Technology as aforesaid. Also, any material change of contracts and legal relations in matters already approved by the Board need re-confirmation by the Board or by the Secretary if the change is of minor importance not effecting matters of principle.

However, in projects where only Philippine parties and technology of Philippine origin are involved, these are freely negotiable by the parties and do not require the grant of the Board, unless the total remuneration in the project exceeds . . .

After a period of two (2) years from the date of grant of the Board it may decide at its option to inspect the project to ensure that it is properly carried through. Should this not be the case, the Board may issue an official letter requesting the parties involved to take within reasonable time corrective measures. If they fail to do so, the Board may withdraw its previous grant.



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