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RENEGOTIATING LICENSING AGREEMENT

CASE STUDY
Manufacturing of Elastic Fasteners

by

Secretariat of UNIDO

Prepared on the basis of case study presented at LES International Meeting, Basel 1975.

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BACKGROUND INFORMATION

Parties of Agreement

Licensee is a Portuguese medium-sized company established in Lisbon.

Licensor is a large and well-known manufacturer of railway equipment, domiciled in Paris.

Subject of the Agreement

The agreement signed in December 1968 gives licensee rights to manufacture in agreed territory a range of elastic fasteners as well as compact clip.

No patent rights of licensor are in force in licensee territory.

Subject of the Exercise

The full text of the agreement is attached to the description.

After 1974, Portugal has given independence to its former colonies and therefore the exclusive territory of the licensee became very limited. In this light, the licensee is seeking to change basic terms of agreement and achieve :

1. Reasonable extension of territory and sales rights
2. Revision of restrictive provisions of the agreement
3. modification of payments
4. access to similar, competitive products

The object of the exercise will be to revise the agreement in such a manner as to achieve objectives under 1 - 4 above, taking into consideration prevailing licensing practices in Europe or USA.

THE UNDERSIGNED :

Hereinafter referred to as LICENCEE

Company under Portuguese law - L.D.A. - with its head offices at
Portugal,

represented by its Director General, domiciled at the above address,
Mr.....

on the one hand, and

hereinafter referred to as LICENSOR

limited company with capital in the amount of francs,
with its head offices at Paris, France,

represented by its Director General, domiciled at the above address,
Mr.

and

hereinafter referred to as M

Limited company with capital in the amount of one million francs,
with its head offices at, France, and its
administrative headquarters at Paris, France, rue

represented by its Head of Commercial Services, domiciled at the
above address,

Mr.....

on the other hand,

have discussed, decided and agreed the following :

Exposition

For many years now, LICENSOR - with the assistance of M , which
is its general commercial agent for all countries except France and will be
discussed below - has designed, produced and marketed, both in France and
abroad, rail- fastening devices for use on railways, known under the general
name of "attaches élastiques" (elastic fasteners").

The production of these items is the result of several years of
research and study by LICENSOR. No application for patents has been made
in Portugal, but the LICENSOR trademark was internationally registered, on
27 May 1966, under number

For its part, M is engaged in the research, study and design of rail-sleeper assemblies incorporating the fasteners and specially adapted to customer requirements and local conditions, both technical and economic.

It may be mentioned at this point that M has performed this function in Portugal until the present day.

LICENSEE, regarding favourably the commercial potential of the elastic fasteners in Portugal and believing that with the assistance and advice of both Licensor and M it could rapidly achieve the ability to produce these units, has requested these two companies to grant it the exclusive rights to make use of LICENSOR, know-how and benefit from the advice and assistance of M for the manufacture and sale in Portugal of elastic fasteners, as currently produced by LICENSOR and described by the following patents :

French patent No..... of 5 April 1947, and its two additions
No..... and No.....

French patent No..... covering the "pre-forming" of the fastener;

French patent No..... covering the "osculating curve" of the fastener;

French patents covering the "compact sleeper clip", the rights to which currently belong to :

No..... of 3 December 1960 covering the electrical insulation;

No..... of 18 February 1959 covering the "adhesive rail-chair";

No..... of 28 November 1960 covering the "wear-resistant packing".

In the light of the foregoing, the above-mentioned and undersigned parties have reached the following agreement :

Agreement

1. LICENSOR grants to LICENSEE, which accepts, the exclusive right to make use of its know-how relating to the "elastic fasteners" described above.

Accordingly, LICENSEE shall have the right to manufacture and sell these units, but only within the territorial limits of the Republic of Portugal and its overseas provinces.

2. Within the framework of this agreement, LICENSOR shall provide LICENSEE with the information it requires to manufacture the units in question, this information consisting of :

- The list and description of all necessary equipment;
- The processes of manufacture and tooling;
- The control processes and control apparatus;
- The list of equipment required for testing and analysis.

3. Also within the framework of this contract, M shall provide LICENSEE, on request, with the detailed instructions required for the assembly of larger units incorporating elastic fasteners and satisfying customer specifications. LICENSEE undertakes to furnish all appropriate information of a local character and, if M considers it necessary to reimburse the travel and living expenses of a M technician.

4. All documents and information furnished either by LICENSOR or by M within the framework of this agreement shall remain the exclusive property of LICENSOR or M , as the case may be.

LICENSEE shall be required to keep these documents and this information secret not only during the entire time this agreement remains in force but also after it has been terminated, for an unlimited period and under all circumstances.

Similarly, and under the same conditions, LICENSEE shall take all necessary precautions to ensure that these documents and information are never revealed in any form, even partially, by any person who has , in any capacity, been employed by LICENSEE or conducted business with LICENSEE.

When the contract ends, whenever and for whatever reason this may take place, LICENSEE shall immediately return to both LICENSOR and M, at its own exclusive cost, all documents and other materials relating to the elastic fasteners which are the subject of this agreement.

The secrecy requirement stipulated above shall not interfere with any obligation to make available all necessary information for the purpose of obtaining the consent of the Government of Portugal for the validation of the present agreement, should that be required.

5. For the purpose of assisting LICENSEE to begin production following the establishment of a production facility on its premises, LICENSOR shall assign one or more technicians to LICENSEE.

LICENSOR shall be required to furnish all the equipment and elements required to bring the production facility to the state of operational readiness.

The travel and living expenses of the technician or technicians shall be borne by LICENSOR (tourist class by air or first class by rail).

If the assignment of this technician or technicians should extend beyond a period of thirty days, LICENSEE shall pay LICENSOR the sum of three hundred francs per additional working day per technician, this sum to be adjustable according to the formula given in article 13 below.

6. At the request of LICENSEE, LICENSOR shall assign technicians to the latter's plants and production shops for the purpose of assisting the LICENSEE staff in the manufacture of the elastic fasteners which are the subject of this agreement.

The travel and living expenses of these technicians shall be borne by LICENSEE under the same conditions as stipulated in article 5 above.

In addition, LICENSEE shall pay LICENSOR the sum of five hundred francs per working day per technician on assignment to its plants and production shops, this sum to be adjustable according to the formula given in article 13 below.

7. The present contract is agreed and accepted for a period of ten years from the date of its signature or from the date of its validation by the Portuguese Government, if this is required.

The contract shall be renewed, by tacit agreement, for one or more periods of equal duration unless a party wishing to terminate it at the expiration of any of the ten-year periods advises the other party of this intention by registered letter with confirmation of receipt or by extrajudicial means, at least one year before the contract is due to expire.

8. On the expiry of this agreement, or upon its termination, at whatever time and for whatever reason this may occur, LICENSEE shall desist from the manufacture and sale of the elastic fasteners described above.

Any units remaining in stock shall, as soon as possible, be inventoried for number and estimated value. They may be sold by LICENCEE until the stock is exhausted.

9. In return for the services, assistance and co-operation receive from both LICENCOR and M, as described in this agreement, LICENCEE shall make the following payments to LICENCOR, which shall itself be responsible for M remuneration :

(a) A fixed lump sum of six hundred thousand (600,000.00) French francs, of which 50,000 francs have already been paid by a transfer through BNP^{*} on 25 April 1968 and 550,000 francs in the form of an accepted draft dated 28 February 1969 on the Banco de Agricultura, Lisbon. The discount charges against LICENCEE, in the amount of French francs, are payable in cash on receipt of billing.

It is stipulated that this bill must be separately backed by a Portuguese bank not later than 4 January 1969. Failing this, and if it has not been possible for LICENCOR to discount this bill in the normal way, the above-mentioned sum, which currently represents US money of account, is to be settled in French francs according to the rate of exchange of the United States dollar, money of account, on the date the actual payment is made.

(b) A sum proportional to LICENCEE turnover (net of taxes, ex works) from the manufacture and sale of the elastic fasteners covered by this agreement, this sum to be calculated as follows by tranche, per annum:

Up to 750,000 units	5.	per cent
From 750,001 to one million units	4	per cent
Above one million units	3.	per cent

These royalties shall be charged for all the parts described in the exposition above.

Royalties in the above percentages shall be payable to LICENCOR every three months and, for the first time, three months after the first series of fasteners has been produced by LICENCEE.

^{*}/ Translator's note: This abbreviation might stand for something like "Banco Nacional de Portugal", meaning "National Bank of Portugal".

Payment of the royalties shall be continued:

- For all the elastic fasteners described in the present agreement, for a period of ten years following the date of the first invoicing by LICENCEE.
- At the expiry of this ten-year period no further royalties shall be due for the fasteners covered by the following French patents:

No.	and additions	and
No.		
No.		

Royalties shall be payable, at the rate of 2.5 per cent of the turnover (net of taxes, ex works) in respect of the patents covering compact sleeper clips until the expiry date of each of these patents, as follows:

- | | |
|------------|---------------------|
| Patent No. | - 2 December 1980; |
| Patent No. | - 17 February 1979; |
| Patent No. | - 27 November 1980. |

On the expiry of this agreement, or upon its termination, at whatever time and in whatever circumstances, LICENCEE shall immediately pay the amounts due as of the date of the expiry or termination, and shall remit the percentage royalties on the sale of the units remaining in stock as these are sold.

In the event of the non-payment of the amounts payable on their appointed due dates, interest shall be charged on these amounts at the rate of 10 per cent per annum.

All amounts due from LICENCEE, which are payable in France and in French francs, shall be understood as net of all Portuguese taxes and dues.

10. In order to enable LICENCOR to check the amount of the royalties due as provided for above, LICENCEE shall enter, in a special register to which the French and Portuguese representatives of LICENCOR shall have access at all times, details of its manufacture and sales of elastic fasteners.

The manner of the entries in the abovementioned register shall be determined by joint agreement between LICENCOR and LICENCEE with the participation of M.

Each payment shall be accompanied by a recapitulatory statement of sales made during the relevant period.

11. All units manufactured by LICENCEE within the framework of this agreement must bear a special hot-pressed mark containing the letters " " and a number which must be recorded, among other data, in the special register discussed above. Specifically, this number must indicate the year and month of manufacture.

12. Every six months LICENCOR shall check, at LICENCEE's plants and production shops, the manufacture of elastic fasteners.

The inspectors' travel and living expenses shall be borne by LICENCOR under the conditions specified above.

The duration of the inspection carried out at LICENCEE plants and production shops is not to exceed forty-eight hours.

In addition, at the request of LICENCEE, LICENCOR shall annually examine, free of charge, a maximum of one hundred units, which shall be shipped by LICENCEE at its own cost, to LICENCOR.

13. Account being taken of the size of the Portuguese market for elastic fasteners, LICENCEE shall pay LICENCOR a minimum annual royalty of eighty thousand (80,000.00) French francs. LICENCEE shall become liable to the payment of this minimum royalty beginning on the date on which it accepts the facility in a condition of operational readiness and for a period of five years.

This royalty shall be paid to LICENCOR in France, in four equal quarterly instalments and in advance.

This minimum royalty shall be adjusted annually and for the first time one year after this date in accordance with the following formula:

$$rP - oP \frac{(W - oW)}{oW}$$

where rP is the revised price;

oP is the original price;

ow is the weighted global index of wages paid in the engineering, electrical and allied industries in France for the month of January 1968 as published in the B.O.S.P. ^{*} or in any other publication that might appear in its stead; index as of 1 January 1968;

W is the same index as above, but for the month considered at the time of the review.

14. In the event that LICENCEE should find itself unable, for whatever reason, to fill orders for elastic fasteners in its concession zone, such orders shall then be filled by express agreement, by LICENCOR either directly for LICENCEE's client or, if that should not be possible because of legal or regulatory hindrance, for LICENCEE.

Whenever the units are directly delivered and invoiced by LICENCOR, they shall not be subject to the 7 per cent royalty provided for in article 8 above.

15. LICENCOR and M recall that the company S, which is well known to LICENCEE is the exclusive representative for elastic fasteners throughout the territory of the former companies. LICENCEE declares that it has reached agreement with S to make use of the latter's services in the future.

16. This licence is not transferable and LICENCEE shall not be permitted, without the formal and advance consent of LICENCOR and M, to grant any sub-licence or to subcontract - even temporarily - for the manufacture of the elastic fasteners in question.

Similarly, LICENCEE is generally prohibited from transferring all or any of the rights which flow from this agreement.

17. During the entire time this agreement remains in force, LICENCEE shall refrain from dealing, directly or indirectly, either by itself or through an intermediary physical person or legal entity, with any enterprise, company or business of any kind engaged in such activities as may be in competition with the elastic fasteners covered by this contract.

^{*} Translator's note: This abbreviation might stand for Bulletin Officiel des salaires et des prix (Official Bulletin of Wages and Prices).

LICENCEE shall continue to be subject to this prohibition after either the expiry or the termination of this contract, but the prohibition shall then be limited to a period of five years.

18. Since, as noted above, the scope of this agreement is limited to metropolitan Portugal and its overseas territories, LICENCEE is expressly prohibited from exporting the elastic fasteners in question outside the concession territory, without the formal and advance consent of LICENCOR and M.

19. If, as the result of further developments by LICENCEE, it should be possible to obtain one or more patents relating to elastic fasteners of the type described in this agreement, such patents shall be taken out jointly by LICENCEE and LICENCOR, which shall hold them in common.

20. The elastic fasteners covered by this agreement shall be sold in the concession territories under a trade mark containing, as stipulated in article 10 above, the letter " X ✓", which must appear on all units produced.

In the event that LICENCOR should register new trade marks, internationally or in Portugal only, for the elastic fasteners in question, these fasteners may be used, without additional charge, by LICENCEE, which, however, must cause them to appear on the fasteners as indicated above.

21. LICENCEE shall inform both LICENCOR and M of any instance, in its concession territories, of counterfeiting of the elastic fasteners described above, as soon as it becomes aware of any such occurrence.

Such action as may be taken in respect of counterfeiters shall be undertaken on the basis of joint agreement between LICENCOR and LICENCEE.

The costs and indemnifications resulting from such actions shall be equally shared by both companies.

22. In the event that any clause of this agreement is violated by either of the parties, the other party shall be entitled to call for its termination - to the detriment of the first party - provided there is given previous notice of sixty days during which steps may be taken to remedy the violation invoked.

In this case, the agreement may be terminated without observance of the requirement for previous notice of one year stipulated above, but with the liability of the party through whose fault the termination has come about to pay to the other party any damages fixed by the arbitrators discussed below.



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