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LICENSING AS A MEANS FOR TRANSFER OF TECHNOLOGY

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Licensing is not the only method for transferring technology, and in this short presentation I will consider some of the other methods, then seek to assess what the licensing method has to offer, with particular reference to the Middle Eastern context.

I Engagement of Individuals possessing know-how

One of the oldest methods of technology transfer is simply for the technology seeker to engage the services of an individual who has become expert in the technology in question from his previous activity or employment. In 1452, when the Ottoman sultan, Mehmet II, wished to develop innovative artillery heavy enough to breach the massive fortifications of Constantinople, he engaged the services of Urban, a German ballistics engineer, paying him four times the remuneration requested: in the assaults of the following year breaches were duly created and stormed, and the Ottomans' capture of the city demonstrates how successfully this technology was transferred.

Nowadays a possessor of technical know-how such as Urban would probably be recruited by the promoters of a new industrial project from his previous employment at a senior level in a leading company in the field in question, his new employers no doubt also hoping that he would appear for his first day's work for them with photocopies of his previous employer's operating manuals under his arm.

Alternatively, he might have his own consultancy office. A new industrial project, for example, will normally require approval from the government authorities, and often such approval will not be given without the preparation of a study confirming the feasibility of the project. Such studies are often undertaken by specialized consultancy offices, or by a group of consultants in different disciplines. They study the commercial as well as the technical aspects of the project, but usually the identifying of the appropriate technology will be a fundamental part of their task. Sometimes their duties will go further: they may be asked to undertake design work for the new industrial facility, or to inspect and certify machinery before shipment for installation in the facility.

II Acquisition of Capital Goods Incorporating Technology

Of course, know-how itself is not always sufficient. In the examples just given the promoters or the clients would also need actually to acquire the capital goods necessary for the operation of their project, such as plant and machinery, computer installations, and so forth. The acquisition of such capital goods is another of the oldest methods of technology transfer. The acquirers might not understand the technology incorporated in such goods, but so long as they were able to use them, then that technology could be said to be transferred.

III Intellectual Property Rights Required for Operation

Here again there are limitations, particularly in modern times when the intellectual property rights subsisting in technology have become widely recognized and in most countries

protected by law. Thus the acquirers of capital goods need to be sure they have acquired not just the ownership of the physical goods, but also the right to use any intellectual property rights required in order to operate them. For instance, a bank which acquires the business and assets of another bank, and thereby doubles the size of its branch network, should not assume that the computer software used to process and record transactions in its own branches can lawfully also be installed and run on the computer system previously used in the new branches, without the agreement of the owner of the rights in the software for such use.

IV Outright Acquisition

There are various ways of ensuring that rights are available. One is of course simply to acquire ownership of the underlying intellectual property itself, taking an "assignment" of it, to use the English law term of art, typically by purchase, or even to acquire control of the company or institution which owns the intellectual property right. Outright acquisition would normally require significant amounts of capital. In exceptional cases this might be the method whereby technology is transferred to a developing country, perhaps by reason of important local factors: for example, in the Middle Eastern context, if the technology-holder in the developed country had devised a means of, say, manufacturing an international mass market beverage based on dates. However, as a rule, a developing country would have little interest in acquiring outright ownership of a technology as a whole. The developing country would simply wish to be able to use the technology for the limited specific purposes of a particular project which had its own role to play in the development of the national economy.

V Licensing

In such circumstances the licensing of the technology will probably be the most appropriate method for the transfer of it. By obtaining a license, the person needing the technology obtains permission to use it in circumstances where, but for the license, the owner of the technology would be able to withhold it, or restrain its use through the courts. A license will usually embody not only the grant of the right, but also the conditions attaching to the grant. The licensee's acceptance of these conditions gives the parties' relationship its contractual character. As with other kinds of contract, the parties are free – subject to any mandatory provisions of the applicable law, including provisions relating to compulsory licenses – to agree upon such conditions as they see fit. They can negotiate license arrangements which match their particular business concerns very closely, and indeed license-contracts can be of considerable length and detail. The contractual nature of the relationship also means that the parties remain in direct dealings with each other for so long as the license continues in force. This means that licensing is, potentially, a most economical and flexible method for transferring technology.

VI Licensing Coupled with Other Legal Relationships

A license-contract can represent a self-standing commercial transaction, particularly where licensor and licensee are both established businesses. In the Middle Eastern countries, however, and, in particular, the further east one goes in the Arab world, an intellectual

property license is more often simply one of a number of legal relationships which are fashioned into a collaborative structure between local and foreign parties for the purposes of a new project, whether in the public or the private sector.

One example is where there is a supply of capital goods coupled with a license of intellectual property rights required for the operation of these capital goods in the country in question. For instance, a stock exchange in a Middle East country might wish to introduce a system for paperless trading reflecting not only modern international standards but also local legislative requirements. The client, that is, the stock exchange, would enter into a contract to purchase the relevant computer hardware, and a license to use and to adapt existing securities market software. The adaptation might, for example, include the development of a facility to reject trades between buyers and sellers of securities on the electronic "floor" of the exchange where the effect of the trade were to take the percentage of foreign participation in the company or institution in question above the maximum percentage permitted in its own constitutive instruments or by local law. The license might also contain the parties' agreement as to how the intellectual property rights in such adaptation were to be owned and exploited in other countries having similar requirements.

Another example might be the setting-up of a franchising operation in a developing country market. The license for the use of the franchiser's trademarks and know-how would be coupled with a wide range of other obligations undertaken by the franchisee – whether in the same or in a different contractual document – relating to the implementation of the franchised system in terms of premises, equipment, personnel, and so forth.

Another, and perhaps the most common example, is where a specialized foreign company and local investors collaborate in the setting-up of a new industrial project. The participation of the foreign company would be contemplated on a continuing basis, both on the legal and the practical levels. The parties' relationship would often be referred to in English as a "joint venture". This term has more than one meaning, but in the legislative environment of Middle Eastern countries it usually takes the form of a local commercial company having as shareholders the specialized foreign company and the local investors, and used as their vehicle for the execution of the project. It is to this company that the foreign participant will license the intellectual property rights required for the project. For a project structured in this way, the various contractual relationships would typically be reflected in the following: a shareholders' agreement, setting the overall framework for the transaction and dealing with specific matters not dealt with in any of the other documents; the memorandum and articles of the local company; the license-contract for the patent and trade-mark rights, and any other intellectual property rights registrable locally; a further license-contract for the provision of know-how and technical support, perhaps also combined with an agreement for management and training services, again provided by the foreign participant to the local company.

VII Central Role of the Intellectual Property Licenses Within Wider Collaborative Structure

Any license-contract has to be prepared with care. This is not just to ensure that there are no misunderstandings as to the extent of the substantive rights being licensed and the conditions of the license, but also to ensure that the structure and the contractual mechanisms

of the license-contract fit coherently with those of the other contracts documenting the collaboration. The question of duration and termination often needs particular attention: a license of patent rights, for instance, will often be of relatively short duration, usually rather less than 20 years, and often a good deal less, depending on such factors as local legislation, the expiry date of the protection period, and so on, whereas the duration of the local company as appearing in its constitutive instruments will usually be much longer, say from 25 to 50 years. Another aspect where the provisions in the different contracts need careful co-ordination is in relation to clauses for the resolving of disputes: it is not helpful if some of the contracts provide for arbitration, and others for court proceedings, some in one place, others in another – it is very likely that, if a dispute arose, it would affect all or most of the contracts, and procedural confusion would ensue.

The fact that technology licenses in Middle Eastern transactions are so frequently wrapped up in a larger complex of legal relationships can mean that local parties are not fully aware of the central importance, in legal terms, of these licenses. This lack of awareness may even be accentuated by the fact that the word in Arabic used for “license” – *tarkhis* – is the same word commonly used to denote an official permit for matters subject to governmental control: for instance, a permit for a commercial company to admit a foreign shareholder, a permit for a householder to build another story, for an archaeologist to dig, and so on. Such a permit is usually short, formulaic and non-negotiable, with the physical original requiring so much chasing to obtain from the issuing government office that no-one thinks to look at it for more than the official stamp and the validity period. A license for intellectual property rights requires to be approached in a very different attitude of mind.

VIII Anti-competitive Practices

The fact that the local parties may devote insufficient attention in the negotiations to the provisions of the intellectual property licenses, coupled with the fact that a license-contract can be moulded to reflect detailed commercial concerns of each party, mean that a foreign licensor can sometimes also seek to exploit the monopoly nature of its rights in order to impose further conditions extending into the area of anti-competitive practices. Examples of potentially anti-competitive conditions include: prohibiting the licensee from acquiring competing technology (sometimes referred to as a “tie-out clause”); obliging it to purchase components or materials from the licensor or some other designated third party (sometimes referred to as a “tie-in clause”); restricting it from conducting its own research and development, or from evolving local adaptations to the licensed technology, or, alternatively, obliging it to grant to the licensor rights in any improvement or adaptation made (sometimes referred to as “grant-back clause”); or requiring the licensee’s obligations to continue after the technology in question has passed into the public domain. The imposing of conditions like these has historically been an area of controversy between developed and developing countries. International organizations such as WIPO and UNCTAD have devoted considerable efforts to this area. TRIPS does in principle recognize that national legislation can be used to control such practices, or at least the more abusive of them. However, unless by this or other means, an prospective licensee is able to resist the inclusion of such conditions, if they are proposed, then the license-contract can become, perversely, a means of inhibiting the transfer of technology, rather than encouraging it.

IX Advantages and Disadvantages of Licensing

In the context of the foregoing, the respective advantages and disadvantages of licensing can be summed up as follows. For the licensee, acquisition of technology through licensing would mean significant savings on research and development expenditure, and probably also the ability to benefit from the incentives for local manufacture available in many Middle Eastern countries. There would also normally be a continuing relationship with the licensee, and the possibility of benefiting from improvements to the technology developed elsewhere. Disadvantages are the possible high costs of local adaptation; the loss of scope for local research and development work; and possible damage through having to accept anti-competitive conditions. For the licensor, the advantages would be that further value is derived from existing technology without further significant investment; and that the market in question would no longer need to be serviced by the manufacture and export of physical goods. Against this, for the licensee, there are the disadvantages that in the event of a dispute there could be a damaging loss of control of the technology, particularly if the local courts are reluctant to issue orders enforcing confidentiality agreements and restraining imminent or actual infringements of the intellectual property rights in question; and, of course, that the profit margins on licensing – not usually much in excess of 5% of sales – are usually less than on manufacturing, either in the home country or abroad.

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