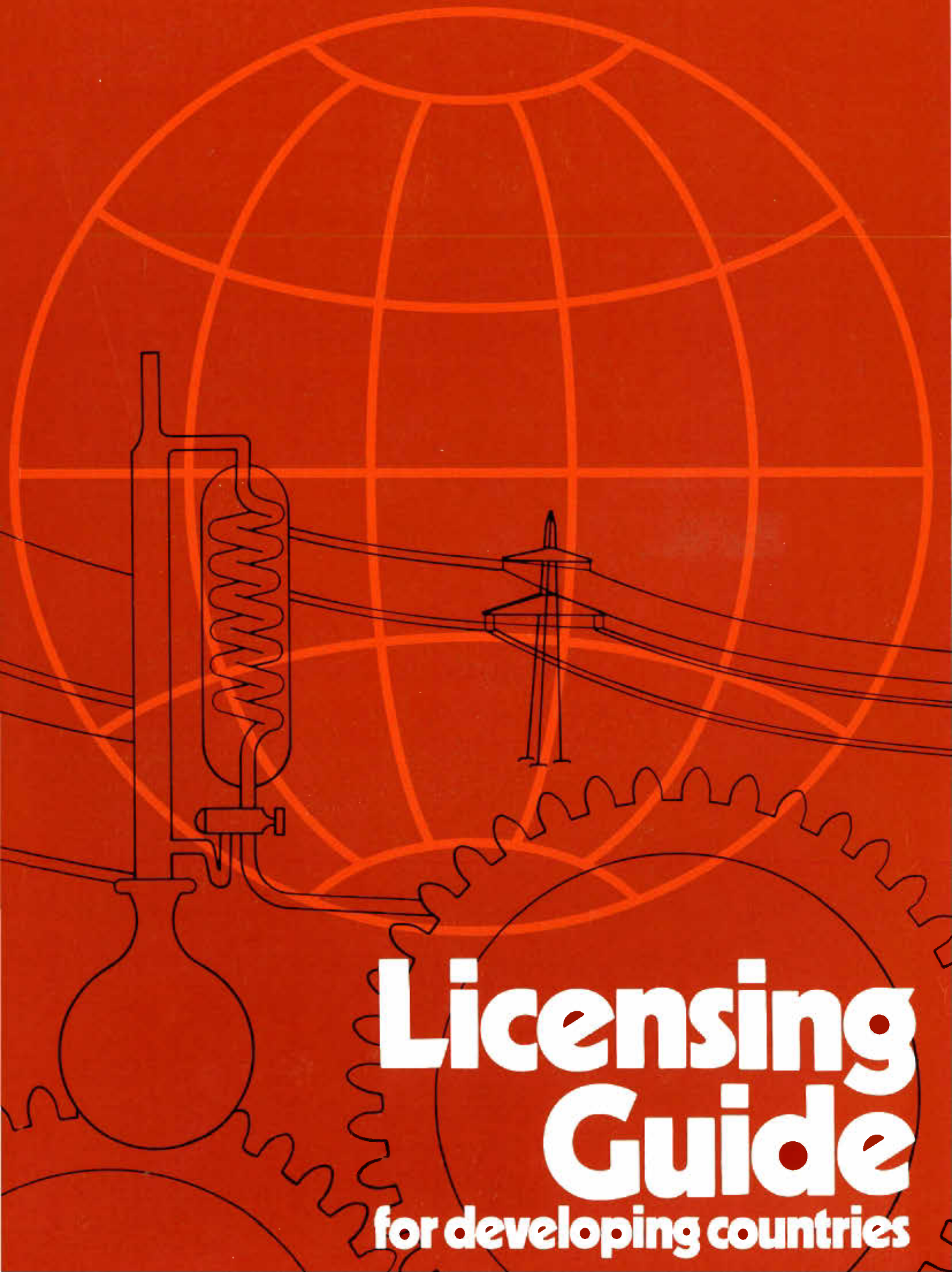


WORLD INTELLECTUAL PROPERTY ORGANIZATION



Licensing Guide

for developing countries

**LICENSING GUIDE
FOR
DEVELOPING COUNTRIES**

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**WORLD INTELLECTUAL PROPERTY ORGANIZATION
(WIPO)**

LICENSING GUIDE
FOR DEVELOPING COUNTRIES

**A GUIDE ON
THE LEGAL ASPECTS OF THE
NEGOTIATION AND PREPARATION
OF INDUSTRIAL PROPERTY LICENSES
AND
TECHNOLOGY TRANSFER AGREEMENTS
APPROPRIATE TO THE NEEDS OF DEVELOPING COUNTRIES**



GENEVA

1977

PREFACE

Facilitating the access by developing countries under fair and reasonable terms and conditions to technology selected by them as appropriate to their requirements constitutes one of the key elements in accelerating the pace of their economic and social development. Such access is generally the result of licenses and technology transfer agreements in the field of industrial property and related fields, particularly as far as patents, trademarks and technical know-how are concerned.

This Guide identifies the legal questions which typically arise in the negotiation and preparation of such licenses and agreements, points out alternative approaches to those questions, draws special attention to those features which may be detrimental to the interests of institutions and enterprises in developing countries, and suggests the solutions which are most likely to serve their interests.

It is hoped that this Guide will be of practical use to governments and industrial enterprises in developing countries in their negotiations with foreign enterprises holding patents or trademarks or possessing know-how. It is planned to publish from time to time revised editions of this Guide on the basis of the experience of its users.

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This Guide is the result of work undertaken by the International Bureau of the World Intellectual Property Organization (WIPO) within the framework of the WIPO Permanent Program for Development Cooperation Related to Industrial Property. Following upon the exchange of experience in the Licensing Seminar organized by WIPO in November 1974, which discussed a list of questions to be considered in negotiating license agreements contained in the WIPO study on the "Legal Aspects of License Agreements in the Field of Patents, Trademarks and Know-How" (document PJ/92, June 1972), the Permanent Committee of that Program recommended, at its session in March 1975, and the competent bodies of WIPO decided in October 1975, that the program for the year 1976 should include work on the preparation of licensing guidelines appropriate to the needs of developing countries. A draft Guide on the Legal Aspects of the Negotiation and Preparation of Industrial Property Licenses and Technology Transfer Agreements Appropriate to the Needs of Developing Countries was prepared by the International Bureau of WIPO, with the advice of consultants, and examined by a Working Group on Guidelines for Industrial Property Licensing in Developing Countries in June 1976. On the basis of the discussions in the Working Group and the suggestions made by it to improve the scope, content and presentation of the Guide, the draft Guide was revised with the further assistance of consultants and published in its present form.

Altogether 99 persons contributed to the work in question as participants in the said meetings. They came from 47 different countries or were designated by one or the other of the international organizations which were invited. The 47 countries are the following: Algeria, Argentina, Australia, Belgium, Brazil, Cameroon, Chile, Colombia, Costa Rica, Cuba, Czechoslovakia, Ecuador, Egypt, France, Germany (Federal Republic of), Ghana, India, Indonesia, Iraq, Italy, Ivory Coast, Jordan, Kenya, Kuwait, Malaysia, Mauritius, Mexico, Netherlands, Nigeria, Peru, Poland, Soviet Union, Spain, Sri Lanka, Sudan, Sweden, Switzerland, Syrian Arab Republic, Togo, Tunisia, Turkey, Uganda, United Kingdom, United States of America, Venezuela, Yugoslavia, Zaire. The list of the participants appears on pages 181 to 184.

The International Bureau wishes to record here its deep appreciation for the advice it received from the participants, particularly the consultants, in the preparation of this Guide.

Geneva, August 1977.

ARPAD BOGSCH
Director General of WIPO

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PART I

INTRODUCTION

PART I
INTRODUCTION

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PART I INTRODUCTION

A. Background

1. Industrialization is a major objective of developing countries as a means to the attainment of higher levels of well-being of the peoples of such countries. The advancement of science and the development of a technological base are essential conditions of industrial growth.
2. The development of a technological base in a developing country depends on the existence of indigenous technological capacities and the acquisition of selected technology from abroad that complements national research and development efforts and the growth of locally created technology.
3. The process of acquiring technology involves a sequence of interlinked activities, such as the *identification of technological needs* in the light of the objectives of economic and social development, the *obtaining of information on alternative sources* of technology, including local sources, the *dissemination of information on technologies* to potential users, the *evaluation and selection of the most appropriate technology*, the *unpackaging of technology packages* in order to assess the suitability, costs and conditions of their components, the *negotiation of the best terms and conditions*, the *adaptation and absorption of the imported technology*, the optimum *exploitation of technology* in the country and the maximum *utilization of the results of that exploitation* within all sectors of the economy.
4. The identification and reduction of the obstacles to the transfer of technology to developing countries, the facilitating of access by developing countries under fair and reasonable terms and conditions to technology, the facilitating of the utilization of technology transferred to developing countries in such a manner as to assist these countries in attaining their trade and development objectives, the development of technology suited to the production structures of developing countries, the adoption of measures to accelerate the creation of indigenous technology, the dissemination of information on relevant technologies, the adaptation of commercial practices governing the transfer of technology to the requirements of developing countries, and the prevention of the abuse of the rights of transferors of technology—these are the key elements in promoting the transfer of technology to developing countries under the International Development Strategy for the Second United Nations Development Decade, the Declaration and the Programme of Action on the Establishment of a New International Economic Order and the Charter of Economic Rights and Duties of States.

B. Obstacles to the Acquisition by Developing Countries of Technology

5. Potential technology acquirers in developing countries frequently face serious obstacles in their commercial dealings with technology holders in developed countries.
6. These obstacles are basically of three kinds: those which arise from the imperfections of the market for technology, those attributable to the relative lack of experience and skill of enterprises and institutions in developing countries in concluding adequate legal arrangements for the acquisition of technology, and those government attitudes, legislative and administrative, in both developed and developing

countries, which influence the implementation of national policies and procedures designed to encourage the flow of technology to, and its acquisition by, developing countries.

1. Concentration of the Source of Technology and Willingness of Technology Holders To Transfer Technology.

7. The market for technology is characterized by the fact that a substantial portion of technology is concentrated in, as well as generated by, a small number of enterprises in a few developed countries with substantial resources. In market economies, it is mainly held and created by omnipresent private enterprises; in planned economies, by monolithic State enterprises.

8. A number of smaller and medium sized enterprises in developed countries hold specialized technology of particular interest to enterprises or institutions in developing countries. Such technology holders, however, usually do not have the means to bring that technology to the attention of potential acquirers in developing countries. Even when contacts are made, such enterprises in developed countries often lack the back-up resources and experience required of commercial dealings abroad.

9. The willingness of these enterprises in developed countries to allow others access to that technology or to permit its exploitation is motivated by technological, commercial, economic and sometimes even political considerations. One of the more important of these is an assessment of the advantages and disadvantages if the technology were to be exploited in the technology holder's country and the resulting product exported to the developing countries rather than exploited in the developing country with the resulting product sold in that and in other countries.

2. Technological and Economic Dependence in Acquiring Technology from Abroad.

10. Even if technology holders in developed countries are willing to part with their technology by selling it to, or by authorizing its exploitation by, a local enterprise or institution in a developing country, the question arises whether such enterprises or institutions in developing countries can acquire such technology without becoming at the same time technologically dependent or without losing their economic independence.

11. The degree of involvement of the technology transferor and the nature of the dependence of the technology transferee will vary according to the nature of the product to be manufactured, or of the process to be applied, or according to the necessity for equipment or other inputs or for even an entire industrial plant to exploit the technology.

12. The involvement may range from non-existent (purchase of the product and its imitation by the purchaser) to minimal (supply of equipment with use/know-how) to moderate (transfer of product or process technology with manufacturing, or assembly/know-how) to intensive (co-production) to maximal (joint ventures, i.e., a sharing of the profit and risk). Intensive and maximal involvement may entail the transfer of sophisticated and modern technology held by a relatively small number of enterprises and subject to use limitations if not also continuous input by the technology transferor and feedback by the technology transferee.

3. Lack of Information and Expertise in Developing Countries on Technology Matters.

13. The process of identifying, evaluating, selecting and, if necessary, adapting to local need, technology to be acquired from abroad presupposes information and expertise to judge the merits of the technology and the best means for its acquisition. Yet enterprises or institutions in developing countries frequently lack information about sources of technology and opportunities for its exploitation and do not possess the means to assess and make a choice among alternative technologies, to determine the appropriateness of the technology for their needs, and to negotiate fair and reasonable terms for its acquisition. As a consequence, prospective technology acquirers in developing countries may find that their bargaining position in their dealings with technology holders in developed countries is relatively weak and as a result the latter may present the former with a technology "package" tied to commercial, financial, and other inputs.

14. Although national institutions may exist in certain developing countries to assist in carrying out the function of identifying, evaluating and selecting technology, they are usually limited to a few technological fields or to special sectors of the economy. For other fields and sectors, and in other

developing countries, the local enterprise must often turn to international consultants, many of whom are already closely associated or have established relations with certain technology holders in developed countries, thus leading to a further state of external dependence.

15. *Lack of Technical, Engineering and Managerial Skills as Impediments to Effective Exploitation.* Further, one selected, the adaptation and absorption of the technology can give rise to problems even for certain developing countries that are rich in natural resources and have a semi-skilled labor force. Developing countries generally lack technical, engineering and managerial expertise to carry out adaptation and absorption, as well as the capacity to introduce the technological advances brought about by research and development activities, the latter of which are for the most part also concentrated in the hands of technology holders in developed countries.

16. Skill formation must be carried out not only through a national infrastructure of technical schools and engineering colleges and training programs in existing industries but also through the training component of the technology transfer transaction.

17. *Lack of Research and Development Activity and Access to Technological Advances.* Similarly, while the basic national infrastructure of science and technology in the developing countries can be strengthened and research and development programs expanded, with particular stress on applied research and the creation of indigenous technology, enterprises in developing countries must have access to advances in existing technology, as well as to new product or process technologies, developed by technology holders in developed countries.

18. *"Overreaching" by Technology Transferors as to Information on Technological Advances of the Transferor or the Transferee.* Yet technology transferors may be reluctant to provide information on technological advances and new technologies, developed after the conclusion of the technology transfer transaction or may be willing to disclose such information only if remunerated by the technology transferee and then often only in return also for a commitment by the technology transferee not to disclose it to others. The technology transferor may further extract from the technology transferee the commitment to disclose information on the technological advances of the technology transferee and to grant to the technology transferor, without payment in return, rights in such advances.

19. In some instances technology transferors have not provided information on technological advances existing at the time of the negotiations, thus limiting the technology transfer transaction to a specified technology that is less up to date. Subsequently, the technology transferor may inform the technology transferee of the fact that a technological advance exists and of its willingness to disclose the details of that advance and confer rights in the technological advance to the transferee in return for a negotiated remuneration, thus further increasing the price of what otherwise should have been included in the basic technology. In other instances technology transferors have been known to begin experimentation of technological advances not in their own production facilities but in the industrial plant of the technology transferee in a developing country. If the results are not satisfactory, efforts to perfect the technological advance may be abandoned often at considerable non-recoverable expense and investment outlay by the technology transferee.

20. *Effect of Lack of Information on Technological Advances and New Technology on Developing Country's General Interest.* The technology transferee needs to be provided not only with a continuous flow of technological information but also with complementary technical services and assistance which will enable it to effectively use the technology and thus maintain, if not expand, its market position.

21. The reluctance of technology transferors to provide information on technological advances and new technology and to complement that information with adequate technical services and assistance is not only detrimental to the technology transferee but also works against the general interest of a developing country in as much as enterprises and institutions in developing countries need to develop alternative technologies and to enhance their indigenous growth capabilities.

22. Consequently, it is incumbent upon technology transferees and government authorities administering laws governing the transfer of technology and responsible for overseeing the import of technology to examine carefully the proposed terms and conditions of the technology transfer transaction to ensure that the basic technology to be supplied is appropriately defined, that adequate guarantees of its effectiveness are included, that access to technological advances and new technologies is facilitated, and

that undue restrictions are not placed on the disclosure by the technology transferee or the communication to and use by third persons of information about such advances and technologies.

4. Scarcity of Financial Resources and the High Cost of Technology.

23. A further obstacle to the acquisition by enterprises in developing countries of appropriate technology is that such countries have scarce financial resources to exchange for that technology.

24. The high cost of technology makes it difficult for the smaller, poorer developing countries to acquire technology on commercial terms. Countries in this category may be able to acquire technology critically needed for their development only through government to government negotiations and with the financial assistance provided by government institutions in developed countries.

25. For those enterprises and institutions in developing countries which will not have the benefit of external financing, the acquisition of technology on international commercial terms will impose a burden on the local economy unless the price of the technology can be brought within manageable limits.

26. *Difficulties and Factors in Arriving at a Fair Price for the Technology.* Yet the fixing of a price for technology is a difficult exercise. So far there is neither a world market for technological knowledge nor a world exchange nor world prices for technology. Moreover, the concentration of technology in certain developed countries or in a few enterprises in such countries renders it difficult for potential technology acquirers in developing countries to obtain competitive bids and to diversify their sources of supply of technology and related inputs. Even where diversification exists, efforts to obtain information about alternative sources of technology or to acquire separate elements of the technology and related inputs from different sources may result in additional costs to the technology acquirer.

27. *Difficulties in Determining the Price of Technology.* In addition, for a given technology transfer transaction, there may not be a readily available measuring stick to determine the price of the technology to be transferred. Among the factors which will be taken into account are the cost of the research and development activities of the technology transferor that are associated with the creation of the technology to be transferred and with the possible future technological advances as well as with new technology, the possibility of multiple sales of the same type of technology, the need to design the technology specially to meet the particular requirements of the technology transferee, and the extent to which the technology transferor is to receive the price in whole or in part from an allocated part of the technology transferee's return in exploiting that technology, a method of payment which may be intended, on the one hand, to reflect a credit facility by the technology transferor, or, on the other hand, its willingness to share with the technology transferee the risk of a business venture.

28. *Value of Technology Varies from Industry to Industry.* It must also be noted that the value of technology as a resource and as a commodity varies from industry to industry. In some industries, moreover, technology reflected in inventions or industrial designs protected by the State may be less significant than in other industries. The protected invention or industrial design in certain technological fields may be concerned with small changes or variants on well established processes and offer limited advantages. In such industries, the possibilities for radically new product or completely novel process technology may be relatively few. In other industries the contrary may be true.

29. *Technology Price is Dependent on the Value Not Only of Disclosed But Also the Value of Undisclosed Technology.* Furthermore, although the patent—which is a document issued by the State that grants for a limited time protection to the owner of the invention and certain rights as against the acts of others who may wish to exploit the invention—describes that invention in a manner recognizable by a “person skilled in the art” as novel, the working and commercial implementation of the invention usually requires a wide range of knowledge and expertise in matters associated with the invention and the disciplines involved. Much of this knowledge and expertise is unpatentable. Some of it may be well known or evident to the skilled engineer and marketing executive while another part of it may not be. It may be of particular importance in certain industries where the modern tendency is to spend many months in putting a plant into successful operation, and especially in maintaining successful operation once it has been achieved, and following through with assistance in the marketing phase.

30. It is this background of knowledge and expertise or information and skills in people, effectively related into a homogenous whole—“know-how”—often but not necessarily associated with the power

to grant permission to use the invention, which also becomes an essential and commercially valuable commodity.

31. How to value either the whole of this commodity or its individual elements is obviously a process of major proportions. It may be time-consuming, and the negotiations may be difficult, not improbably resulting in modification of the original objectives of the parties.

32. It is not surprising therefore that there should be considerable controversy over pricing policies and in arriving at an acceptable figure which is reasonable to the technology transferor and to the technology transferee and which avoids the claim that the price reached is the result of the superior bargaining position of the technology transferor.

5. Indirect Gains to the Technology Transferor from the Supply of Related Inputs and from Controlling Output.

33. In addition, the fact must not be overlooked that a technology transferor may derive substantial indirect gains from the technology transfer transaction as a result of the supply by it of other inputs necessarily related to the technology transferred, such as plant or machinery, raw materials or intermediate goods or components required in the exploitation of the product or process technology. It is for this reason that tie-in arrangements which link the sale of such capital goods or inputs to the technology transferred must be scrutinized not only from the perspective of the added benefits to the technology transferor but also from the point of view of their impact in narrowing the latitude of the technology transferee to explore alternative and more economical international sources of supply as well as from their undesirable effect in discouraging participation by potential local suppliers.

34. Similarly, technology transferors may stand to benefit from controlling the output of the technology exploited, such as by limiting the purpose for which the technology may be used, or by attempting to impose quantity or price restrictions on the sale of the product, or by efforts to confine the marketing of the product to the developing country where manufacture takes place or to channel that production into the hands of the technology transferor or away from markets being serviced by it with its own production or with the production of other technology recipients. Here again, such restrictions must be viewed from the perspective of the added gains to the technology transferor, the freedom of the technology transferee and the impact on the economy of the developing country and its posture as an emerging trading power.

6. Inadequate Legal Framework for the Technology Transfer Transaction.

35. An important prerequisite to the successful commercial transfer or acquisition of technology is an adequate legal framework within which the parties to the transaction can fix their respective rights and obligations and which permits an equitable balance to be struck between, on the one hand, the interests of these parties and, on the other, the interests of the State or the public.

36. As concerns the legal relations between the parties, these relate to the technical, financial and commercial matters alluded to so far, and involve business people, technologists and engineers in a carefully orchestrated movement leading to successful implementation of the technology transfer transaction. That implementation rests on an adequate legal framework for commercial transactions—i.e., laws concerning contracts, business associations, fair trade practices and industrial property—yet in many developing countries these laws need to be modernized and institutions for their administration need to be established or strengthened.

7. Lack of Skill and Information on Legal Aspects of Technology Transfer Transactions.

37. Furthermore, from the standpoint of the potential technology acquirer, there is often a lack of information and skill to deal with the many legal aspects of industrial property licenses and technology transfer agreements—the two principal mechanisms through which the commercial transfer of technology takes place.

38. These aspects have been alluded to in the foregoing paragraphs in the context of the obstacles faced by enterprises and institutions in developing countries in acquiring technology from enterprises in developed countries.

39. The license is the means by which the owner of industrial property, such as a patented invention, confers a right on another to use the invention and formalizes the commercial understanding between the owner—the licensor—and the user—the licensee—concerning the right and the extent of the use of the invention.

40. The technology transfer agreement—such as a know-how contract—is also a legal mechanism and also formalizes a commercial understanding but does so as between the supplier of the unpatented technology and the recipient of that technology.

41. Both mechanisms sketch the legal, commercial, financial and technical parameters of the transaction and set the operating procedures for the transfer of the technology, its application, absorption and exploitation.

8. Inadequate Government Controls and Lack of Understanding of Commercial Aspects of Technology Transfer.

42. From the standpoint of the government in a developing country there are many broader considerations than those at issue between the potential technology transferor and the prospective technology transferee. These include the scientific, technological and economic effects in the country of the import of the technology, the effect on the balance of payments of the country, the need for parallel negotiations on fiscal matters, foreign exchange transfers and foreign investment.

43. These matters are treated in governments at different levels: the scientific, technological and economic objectives by national and sectoral development plans and planning authorities and the foreign exchange problems and fiscal aspects by the financial authorities.

44. In some developing countries, the technology transfer transaction itself may be the subject of scrutiny by a government authority charged with approving the terms and conditions of the legal arrangements the parties have concluded or intend to conclude.

45. In such countries the technology transfer transaction must thus be regarded in the light of not simply whether, as a commercial transaction, it strikes a fair balance between the interests of the transferor and the transferee but also whether its technical, financial, commercial and legal aspects are consistent with the objectives sought to be achieved by the government and whether they will result in an inflow of technology that will appropriately promote the scientific, technological and economic development of that country.

46. In developing countries which set up or desire to set up machinery to control the commercial transfer of technology, difficulties have arisen however, in establishing the appropriate government policies and in formulating the governing procedure and criteria. Further, enhanced coordination of diverse government sectoral policies, plans and programs, the clearer identification of the appropriate decision-making authorities, the stabilization of the legal base for the commercial transfer of technology and its control, greater flexibility in the approval of the technical, financial and commercial terms of the technology transfer transaction, and continued improvement of the fiscal incentives for investment can lead to a more favorable climate for the transfer of technology from enterprises in developed countries and its acquisition by enterprises and institutions in developing countries.

9. Conclusions.

47. If the obstacles to the transfer of technology are to be removed, if fair and reasonable terms to its access are to be negotiated, if technology is to be utilized properly and is to be suitably developed, if indigenous technology is to be created, if commercial practices are to be adapted and if abuses are to be prevented—so as to play a significant role in the accelerated development of developing countries—the bargaining position of potential technology acquirers in developing countries when dealing with enterprises, governmental and private, in developed countries must be strengthened.

48. Enhancing the legal knowledge and legal skills of potential technology acquirers in developing countries and their awareness of existing commercial practices and potential abuses, as well as drawing the attention of government officials in developing countries to the legal questions and possible solutions faced by technology transferors and technology acquirers in their commercial dealings, should contribute to strengthening the bargaining position of potential technology acquirers in developing countries. That is the aim pursued by this Guide.

C. Purpose of the Guide

49. As indicated in the Introduction, the purpose of this Guide is thus to give practical help with the legal aspects of the negotiation and the preparation of industrial property licenses and technology transfer agreements appropriate to the needs of developing countries.

50. This Guide is intended primarily for use by potential licensees and technology recipients in developing countries. It aims to assist such licensees or technology recipients in identifying the legal problems which are likely to arise in the negotiation and preparation of an industrial property license or technology transfer agreement, to indicate the possible solutions, and to suggest courses of action that are most likely to be in their interest. As such, the Guide is not intended for the benefit of prospective licensors or technology suppliers in developing countries; however, the treatment of the problems, the possible solutions and the suggested courses of action may indirectly provide insights for such licensors or technology suppliers in their dealings with potential licensees and technology recipients whether the latter are in developing or developed countries.

51. This Guide may also prove helpful to government officials of developing countries whose responsibilities in the course of the administration of laws controlling the flow of technology, foreign investment and foreign exchange are to review industrial property licenses or technology transfer agreements and to give advice to licensees or technology recipients who are about to conclude industrial property licenses and technology transfer agreements. With the aid of the information provided in the Guide, such officials can draw the attention of a given licensee or technology recipient to the problems that may have been overlooked in the negotiation or preparation of the license or agreement or recommend a more appropriate solution than the one chosen by that licensee or technology recipient.

52. The Guide may also assist officials of a government which is planning to adopt new legislation or to strengthen its existing laws controlling the flow of technology, foreign investment and foreign exchange in determining the scope of such legislation or the necessary modifications.

D. Methods for the Transfer of Technology to Developing Countries

53. The commercial transfer of technology to developing countries usually takes place through enterprise-to-enterprise arrangements, including by way of the transfer of industrial property rights, including licensing, the execution of agreements for the supply of technical know-how or for the provision of technical services and assistance, or in connection with the sale and import of capital goods, parts or other components or as an element of franchise or distributing agreements, or as a result of direct foreign investment (including joint ventures) with the consequent infusion by one enterprise of entrepreneurial, managerial or technical skills normally associated with ownership or control of another enterprise.

54. The partners to these arrangements are, on the one hand, private enterprises or government institutions in the industrialized market economies or State enterprises or governmental institutions in industrialized centrally planned economies, acting as transferors or technology suppliers, and, on the other hand, private or State enterprises or governmental institutions in developing countries, acting as transferees or technology recipients.

55. The licensing of industrial property rights and the supply of know-how are two of the main methods employed for the commercial transfer of technology to developing countries.

56. An "industrial property license" has as its subject the permission to do certain acts covered by the exclusive rights conferred by the law as regards a patent of invention, an industrial design, a utility model, a plant variety, a trademark or a service mark.

57. The supply of know-how may be the subject of an agreement to communicate technical information and skills concerning the use and application of industrial techniques (sometimes referred to as "technical know-how" or "technical information"). The technical information and skills may be described in documentation or furnished orally or through demonstration and training by engineers, technicians, specialists or other experts.

58. Know-how may also be supplied through consultants or other professional experts who provide services and assistance covering the basic engineering of an industrial plant or its machinery and equipment, the installation, operation and maintenance of an industrial plant and the training of its personnel, or the management of an enterprise and its industrial and commercial activities (sometimes referred to as "technical-industrial cooperation services and assistance"). Such professional expertise may also extend to pre-investment and post-investment phases of a project, including technical, eco-

conomic, financial and organizational studies and general planning (sometimes referred to as "specialized technical services").

59. Such know-how agreements—whether for the supply of technical know-how or technical information, or for the provision of technical services and assistance—are two of the different kinds of agreements that may be involved in a technology transfer transaction.

60. The commercial transfer of technology may also in fact take place with the sale and import of machinery and equipment and other capital goods or of raw materials, intermediate goods, parts or other components, that embody technology, and related literature. Such sales and import transactions are in a sense technology transfer transactions. Agreements covering such sales and imports are sometimes associated with an industrial property license or a know-how agreement. In certain instances, provisions concerning such sales and imports may even be found in the industrial property license or the know-how agreement itself.

61. The commercial transfer of technology may also occur in connection with the system of the franchising or the distributorship of consumer goods and services. The goods in question may be durable, as in the case of automobiles or home appliances, or consumable in use, as, for example, prepared food products or beverages. The services may extend to the rental of consumer durables, e.g., automobiles, trucks or power equipment, or to hotel operations or dry cleaning facilities. The outlet for the marketing of such goods and services is usually based upon a trademark or service mark combined with technical information, or technical services and assistance (e.g., concerning production, marketing, operation, maintenance and management) and is often coupled with special designs and a special décor of the premises. The franchisee or dealer may own or have a substantial investment in the premises but uses the trademark or service mark and know-how of the franchisor or distributor.

62. In certain instances, two or more of the methods for the commercial transfer of technology may be combined. Thus, the "turn-key project" involves either a comprehensive arrangement of some of the methods referred to above, whereby one party undertakes to hand over to his client an industrial plant capable of operating in accordance with the agreed terms and conditions, or, more usually, an undertaking to supply to the client the design for the industrial plant and the technical information on its operation. In the latter event, supplementary arrangements might also be made for the provision of technical services and assistance in the installation of the industrial plant, in the acquisition of capital goods and raw materials, etc., and in the operation of the plant, at least in its initial stage, or for other forms of industrial cooperation.

63. Technology can also be transferred or acquired other than commercially, as through the dissemination and the utilization of published technological information (e.g., scientific and technical publications), the movement of persons to a developing country from another country, the education and training of personnel at research and development institutes in other countries, and the exchange of information and personnel through technical cooperation programs.

E. The Importance of the Licensing of Industrial Property Rights and the Supply of Know-How

64. The more modern the technology and the higher the degree of process specialization and product specialization, the more likely it is that the technology is the subject of industrial property rights or the technical information, skills or professional expertise is in the exclusive control of an individual or an enterprise, the latter often with operations in many countries, and the greater is the chance of the transfer taking place through a license of such rights and the conclusion of know-how agreements, often accompanied by the sale and purchase of capital goods and raw materials, etc., with perhaps direct investment involved as well, and most likely forming a part of a turn-key project.

65. The choice of one or more of the methods employed for the commercial transfer of technology, and consequently the resulting legal arrangements upon which the transfer of technology to developing countries is based, reflects distinct legal, technical, economic, social, cultural and political considerations in the context of attempting to reconcile, on the one hand, the divergent interests of the transferor of technology and his transferee and, on the other hand, the governmental interest in ensuring legal arrangements between these parties for the acquisition of the technology under fair and reasonable terms and conditions and in furtherance of the economic development of the country.

F. Legal Arrangements for the Transfer of Technology

66. Many, if not most, of the methods through which the commercial transfer of technology takes place depend upon legal relations, principally consensual legal arrangements, between the parties to the transfer. Apart from the legal act which characterizes the creation of a business organization, such as a corporation or a partnership, or of a commercial agency and the legal relationships governing their interactions, the terms and conditions which govern the commercial transfer of technology from one party to another are incorporated in a legal instrument, sometimes denominated a "grant," "license," "contract," or "agreement."

67. A clear understanding of the scope, contents and legal effect of these arrangements, especially in the context of the legal framework in the developing countries governing technology transfer transactions, is indispensable not only to the potential technology transferee in a developing country when negotiating the terms and conditions of the transfer and subsequently in drawing up the legal instrument or instruments with his technology transferor, but also to government officials in developing countries who provide advisory services during the course of the negotiations and the drafting of such instruments or who are otherwise concerned with questions relating to the control of such legal arrangements.

68. Given the myriad of consensual legal arrangements which enshroud transactions relating to the transfer of technology to developing countries, it is not possible in this Guide to treat them all.*

69. As indicated at the outset of this Introduction, this Guide is concerned with the legal aspects of the negotiation and preparation of industrial property licenses and technology transfer agreements appropriate to the needs of developing countries. For the most part, however, the Guide singles out, as regards the former, the *patent* license and the *trademark* license, and as concerns the latter, the *know-how* agreements for the communication of technical information and skills or for the provision of technical services and assistance, whether or not related to the patent or trademark license. In addition, this Guide treats, albeit in an ancillary way, arrangements concerned with the sale and import of capital goods or of raw materials, etc., or with the marketing of goods and services that may be related to the transfer of technology and hence may be linked to the patent or trademark license or to the know-how agreement. It should be noted further, that one or more industrial property licenses or know-how agreements may be involved in any given technology transfer transaction, that they may be embodied in a single or in a number of legal instruments, and that they may appear separately or in combination with other legal arrangements.

70. In addition, any given technology transfer transaction and the consensual arrangements which reflect it must be viewed in the context of the legal framework which the parties to the transaction have in mind when pursuing their negotiations, preparing the appropriate legal instrument or instruments, and obtaining, if necessary, the approval of government authorities. That framework may be the legal system of one particular developing country or, perhaps as well, other developing countries, but it should not be overlooked that legal systems of still other countries may have application to particular features of the transaction or to its effects.

* The reader may find helpful, in this general context, the following publications of the United Nations: Manual on the Establishment of Industrial Joint-Venture Agreements in Developing Countries (1971) (United Nations Publication ID/68, Sales No. E.71.II.B.23) and Guidelines for the Acquisition of Foreign Technology in Developing Countries, with Special Reference to Technology License Agreements (1973) (United Nations Publication ID/98, Sales No. E.73.II.B.1), both prepared by the United Nations Industrial Development Organization (UNIDO). See also, more generally, the Guide for Use in Drawing Up Contracts Relating to the International Transfer of Know-How in the Engineering Industry (1970) (United Nations Publication, Trade/222/Rev.1, Sales No.: E.70.II.E.15), the Guide on Drawing Up Contracts for Large Industrial Works (1973) (United Nations Publication ECE/Trade/117, Sales No. E.73.II.E.13), the Guide on Drawing Up International Contracts on Industrial Cooperation (1976) (United Nations Publication ECE/Trade/124, Sales No. E.76.II.E.14), all three prepared by the United Nations Economic Commission for Europe (ECE). The second publication also cites a number of documents published by the ECE on the supply and erection of industrial plant, particularly General Conditions and Additional Clauses for the supply and erection of plant machinery and for its import and export, as well as similar General Conditions published by the Council for Mutual Economic Assistance (CMEA).

On the general subject of the transfer of technology, see also Guidelines for the Study of the Transfer of Technology to Developing Countries (1972), a study by the Secretariat of the United Nations Conference on Trade and Development (UNCTAD) (United Nations Publication TD/B/AC.11/9, Sales No. E.72.II.D.19), and An International Code of Conduct on Transfer of Technology (1975), a report by the UNCTAD Secretariat (United Nations Publication TD/B/C.6/AC.1/2/Supp.1/Rev.1, Sales No. E.75.II.D.15).

71. In this particular context, it should be noted that in recent years a number of developing countries have adopted legislation, regulations, decrees or guidelines governing the transfer of technology and controlling restrictive business practices, particularly those arising in the acquisition of technology from abroad. These legislative developments, which in some developing countries are incorporated in the industrial property law, while in others appear as separate legislative or administrative measures, parallel in many respects the steps taken in developed countries through special legislation or by judicial decisions dealing with restrictive business practices, whether such practices are associated with the exercise of industrial property rights or otherwise. A brief description of the principal features of the laws governing the transfer of technology and contracting restrictive business practices is given in Section U, paragraphs 602 to 615, of Part III: Explanatory Notes and Examples, and specific elements of these laws as well as of the laws controlling restrictive business practices are referred to in other sections of Part III.

G. Contents of the Guide

72. This Guide consists of this Introduction (Part I) and three other parts: background information on the process of negotiating an industrial property license or a technology transfer agreement (Part II), a check-list of points to be considered in the negotiation and in the preparation of such a license or agreement (Part IV); the explanatory notes on the principal features of these points and examples of provisions on such points as could be included in such a license or agreement (Part III).

73. Part II (The Negotiation Process) deals with the selection of the prospective transferor and the potential transferee of technology, the preparation and presentation of the offer to supply technology, the participants and intermediaries in the negotiations, the negotiation of the terms and conditions of the technology transfer transaction, the determination of the licenses or agreements to be concluded and the preparation of the necessary legal documents.

74. Part III (Explanatory Notes and Examples) and Part IV (The Check-List of Points) are each divided into 26 sections. Many of these sections relate to matters common to all industrial property licenses and technology transfer agreements. A few others pertain to matters common to some but not all of such licenses or agreements, in particular to the patent license, trademark license, and know-how agreements for the communication of technical information and skills or for providing technical services and assistance. Two sections deal more specifically with matters concerning the supply of equipment or other capital goods or of raw materials, intermediate goods, parts or other components that are sometimes linked to the technology transferred.

75. The check-list (Part IV) suggests questions for consideration during the negotiation or in the preparation of the license or agreement. In some cases, the result of this consideration will be a decision to the effect that a particular point need not be covered in the license or the agreement. In other cases, a consideration of these points may result in additional points being raised by either of the parties. The check-list, therefore, is merely a practical "aide-mémoire." The order in which the points are presented may also assist in determining the structure or the layout of the provisions in the license or the agreement.

76. The explanatory notes in Part III contain a descriptive treatment of the issues suggested by the diverse points in the check-list, the legal aspects and the possible solutions, including those reflected in the examples, which may ultimately find their way into the license or the agreement. The explanatory notes are not exhaustive; nor are they intended to be. They do not necessarily raise all the issues, nor all the arguments for and against any of their legal aspects, nor do they point to all their solutions. They do summarize briefly the more significant problems, highlight the principal legal factors, and indicate which approaches merit special examination by the licensee or technology recipient in his dealings with the prospective technology transferor and by the government officials concerned, particularly in the light of laws governing the transfer of technology and controlling restrictive business practices.

77. The examples referred to in the explanatory notes give illustrations of the ways in which parties to some licenses or agreements may resolve the principal issues reflected in the check-list and the explanatory notes. The examples are not intended to be exhaustive illustrations of the ways in which these issues could be resolved, nor are they intended to limit these ways. Moreover, each example given stands on its own and, therefore, should be examined carefully in relation to each of the others before

the approach it suggests is incorporated in any given license or agreement, the provisions of which collectively should form a harmonious whole. Each example referred to has been selected, however, in the light of whether the approach suggested by that example would render the license or the agreement more appropriate to the needs of developing countries.

H. Definitions for the Purposes of the Guide

78. For the purposes of this Guide:

(i) "Patent" means a document, issued, upon application, by a government office (or a regional office acting for several countries), which describes an invention and creates a legal situation in which the patented invention can normally be exploited (manufactured, used, sold, imported) only with the authorization of the owner of the patent. The protection conferred by a patent is limited in time (generally 15 to 20 years).

(ii) "Invention" means a solution to a specific problem in the field of technology. An invention may relate to a product or a process. An invention is "patentable" if it is new, involves an inventive step (i.e., it is not obvious) and is industrially applicable.

(iii) "Utility model" means an invention protectable, upon application through the registration, by a government office, of the description, drawing or other picture or also by the filing of a model, in accordance with requirements somewhat less strict than for "patentable" inventions (e.g., lower fees, only in certain technical fields, without inventive step) but also protected to a lesser extent (e.g., shorter duration); otherwise the rights under the utility model are similar to those under a patent.

(iv) "Industrial design" means—in the field of industrial property—the ornamental aspect of a useful article, which is original or novel and is registered in a government office (or in a regional or other central office acting for several countries). A protected industrial design may not be copied or imitated without the registered owner's authorization, and copies or imitations made without such authorization may neither be sold nor imported. Protection is afforded for a limited period of time (generally 5 to 15 years). The right accorded to the owner of an industrial design protected under copyright law extends to preventing the copying or the reproduction of the industrial design.

(v) "Plant variety" means a variety of a species of plants (trees, shrubs, herbs, vegetables and flowers). A "new plant variety" is protected by the law if it fulfills certain conditions, such as distinctness from other existing varieties and homogeneity and stability of the new variety during several generations. Protection is granted either under the patent law or under a law providing for a special title of protection ("a plant variety right"). The plant breeder's right is for a limited time and gives the owner an exclusive right to prevent others from producing, for purposes of commercial marketing, propagating material, as such, of the new variety, and from offering for sale or commercializing such material. In some laws, and under certain conditions, the exclusive right extends to the production and sale of the commercialized product.

(vi) "Trademark" means a sign which serves to distinguish the goods—as does the service mark with regard to services—of an industrial or commercial enterprise. (It thereby indicates their origin and carries with it the guarantee of a certain permanent quality.) The sign may consist of one or more distinctive words, letters, numbers, drawings, pictures, etc. Although, in some countries and in some situations, marks are protected without registration, it is generally necessary for effective protection that the mark be registered in a government office (or in a regional office or other central office acting for several countries). Actual use of the mark, or a declared intention of actual use of the mark, is a condition of registration in the laws of some countries; and, in most countries, actual use of the mark is required for the maintenance of the registration or at least as a condition for defending the mark. If a mark is protected, no person or enterprise other than its owner may use it—or any mark so similar to it that its use would lead to confusion in the mind of the public—at least not on or in connection with goods or services regarding which such confusion may arise. The protection of a mark is not limited in time but is usually subject to the periodical renewal (generally, every 5 or 10 years) of the registration and, in many countries, to the continued actual use of the mark.

The word "trademark" when used in this Guide, also includes the "service mark," unless it is otherwise indicated expressly or by the context.

(vii) "License" means, in the case of a right conferred by a patent, or by a protected utility model, industrial design, new plant variety or trademark ("industrial property"), the permission, given by the owner of that right ("licensor") to another person ("licensee"), to perform certain acts which are covered by that right.

(viii) "Technology" means systematic knowledge for the manufacture of a product, the application of a process or the rendering of a service, whether that knowledge be reflected in an invention, an industrial design, a utility model, or a new plant variety, or in technical information or skills, or in the services and assistance provided by experts for the design, installation, operation, or maintenance of an industrial plant or for the management of an industrial or commercial enterprise or its activities.

79. The meanings of other expressions—"know-how," "technical know-how," "technical information," "technical services and assistance," and the said words employed in conjunction with "agreement," as well as "technology transfer agreement" (the parties to which are the "technology supplier" and the "technology recipient")—are given or indicated in paragraphs 57, 58 and 59 above.

I. Concluding Remarks

80. No industrial property license or technology transfer agreement will be practical and workable unless it records accurately the true agreement in substance reached between the parties. Just as transferors of technology in developed countries should understand the problems of technology transferees in developing countries and the policies of their governments, so also such transferees should be fully aware of the commercial aims of technology transferors with whom they do business and of any government control exercised over their activities.

81. Finally, a few words of caution on the need for timely expert legal advice. Technology transfer transactions vary in their scope and nature and give rise to diverse legal questions which may be resolved differently depending upon the legal system to which they are subjected. Although some practical help with the legal aspects of the negotiation and preparation of license agreements and technology transfer agreements is given by this Guide, it is, in the final analysis, only a guide. In all cases, professional legal advice should be taken during the negotiation and preparation of any such licenses or agreements.

PART II

THE NEGOTIATION PROCESS

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PART II

THE NEGOTIATION PROCESS

A. In General

82. Conditions vary widely from one country to another, and particularly among developing countries, and hence the nature of the technology offered or needed and the type of arrangements for its acquisition, application and development will differ according to those conditions.

83. It is beyond the scope of this Guide to consider or analyze the reasons why technology is offered by its holder for application and development by another or the nature of and need for any given technology which a potential licensee or technology recipient may wish to acquire or the appropriateness of that technology for the developing countries concerned. The relevant commercial, financial and technical aspects of the acquisition, application and development of technology and the economic effects of its transfer to developing countries have been, and no doubt will continue to be, the subject of a vast amount of literature and the preoccupation of many.

84. The purpose of this part of the Guide is to give some indications of the participants, mechanisms and techniques involved in the process of negotiating and preparing an industrial property license or a technology transfer agreement once it has been decided that technology is to be offered by the holder for exploitation by another or that technology is to be acquired abroad rather than created locally. That process includes the search for and the selection of the prospective transferor and the potential transferee of technology, the preparation and presentation of the offer to supply the technology, the participants and the intermediaries in the negotiations, the negotiation of the terms and conditions of the technology transfer transaction, the determination of the licenses or agreements to be concluded, the preparation and execution of the necessary legal documents and the obtaining, if necessary, of government approval of the transaction and the documents.

B. Selection of the Prospective Transferor and the Potential Transferee

85. The selection of a prospective transferor or a potential transferee of technology may be the result of a simple contact or follow upon an extensive search. Yet the selection of the partner to the technology transfer transaction needs as much care as the choice of the most appropriate technology.

86. Large as well as small enterprises may receive direct by mail many opportunities to supply or acquire technology. Trade magazines and newspapers often carry advertisements offering or requesting a given technology. Trade associations often provide aid and advice to smaller enterprises desirous of finding suitable partners. Many banks and other financial institutions have foreign departments which assist prospective technology transferors and potential technology transferees. Certain governments maintain trade promotion offices or have established units, such as national research development organizations, which act as a focal point for technology offers and demands. Commercial sections in embassies and consulates serve as sources of information on prospective transferors. Inquiries may come from individuals, enterprises, trade associations and government agencies, such as investment

boards, national productivity centers, research institutes and other governmental institutions concerned with the economic, industrial and commercial development of the country. The offer or the request to supply technology may be made and followed up directly between the prospective transferor and the potential transferee or indirectly through intermediaries (see paragraphs 90 to 99).

C. Preparation and Presentation of the Offer or Request to Supply Technology

87. The amount of the information which is made available through such contacts will vary with the nature of the technology and other circumstances. Typically, offers and requests do nothing more than identify the prospective transferor or the potential transferee, describe briefly the technology offered or requested, with possibly, in the case of an offer, illustrations and drawings, references to existing patents and trademarks or pending applications therefor and indication of the possible uses, and suggest the type of financing or business arrangements which might be entered into. In appropriate cases, samples of the product may be provided. The prospective transferor may even offer or be called upon to describe alternative or competing technology and to identify other prospective transferors of such technology to whom inquiries concerning that technology may be addressed or who may be invited by the potential transferee to submit proposals for consideration.

88. Following a favorable response, the prospective transferor may even grant to the potential transferee an option to acquire the technology. The period of that option will depend on the length of time needed to evaluate the technology and the option may include provisions for the disclosure, at various stages, of information about the technology and call for advance payment commensurate with the amount of information disclosed. The extent of the disclosure for the purposes of its evaluation may often depend also upon the conclusion of a preliminary agreement concerning the technical information which will be revealed to selected officials or experts of the potential technology transferee (see Part III, Section G.3 "Disclosure of Know-How," paragraphs 259 to 265). Once the interest of those officials or experts in proceeding further has been expressed, negotiations may commence.

89. In many developing countries, State institutions and enterprises acquire technology from abroad as part of public or semi-public industrial investment projects. National laws governing such projects may require that a specified procedure be followed for the preparation and distribution of tender documents, the preparation and submission of bids, the comparison and evaluation of bids and the award and signing of contracts.

D. Participants and Intermediaries in the Negotiations

90. There are many possible ways in which the prospective technology transferor may conduct negotiations with the potential technology transferee.

91. In market economy countries, these range from direct relations by the prospective technology transferor—as a parent company, in its own name, or through an export department or division—or by indirect relations through a domestic subsidiary, or a unit abroad such as an administrative department, area headquarters, branch office, individual representative, foreign subsidiary or affiliate or associate, to dealings through intermediaries. Many enterprises maintain a specialized department for licensing or have a staff manager with licensing functions. In others, the patent or the legal department may handle technology transfer negotiations throughout the world or in specified areas. In some, the top executive or executives may handle all foreign technology transfer transactions. The usual procedure in large enterprises often is to have regional representatives negotiate the routine kind of industrial property licenses and technology transfer agreements and begin negotiations on the more important technology transfer transactions.

92. As regards intermediaries in market economy countries, mention should be made of licensing companies and patent development companies, patent research organizations, patent brokers and patent development engineers specializing in the development, management and marketing of industrial property rights and whose services are available to both prospective technology transferors and potential technology transferees. In addition, combination export management firms and management con-

sultant firms may also handle technology transfer transactions. Engineering companies may provide engineering services and procure equipment or construct industrial plants in which the product or process technology to be acquired by the potential technology transferee from the prospective transferor will be used. In some instances the engineering companies may even be owned by the prospective transferor.

93. In a number of countries, organizations exist for developing and valorizing research and commercializing the resulting technology. The objective of research development organizations is to seek out useful results of scientific research, to evaluate them, and to make them known to industry once they have developed to the point at which an industrialist is prepared to take the risk of commercial exploitation. At the same time, these organizations inform research workers of the needs of industry in an effort to organize the exploitation of research through industrial property licensing or joint ventures.

94. In Socialist countries and in some other countries with planned economies, technology transfer transactions may be negotiated through foreign trade organizations which function as semi-autonomous purchasing and selling agents in defined industrial product areas or through a separate, self-supporting organization specializing in the sale and purchase of technology, either by licenses for inventions, the transfer of technical know-how or the rendering of technical services and assistance. Such organizations acquire or transfer technology on behalf of individual production enterprises and research and development institutes in the country.

95. An industrial property license or a technology transfer agreement might be concluded directly or indirectly by the licensor or technology supplier with any of the following as the licensee or technology recipient in a developing country: (a) a wholly owned manufacturing or non-manufacturing subsidiary; (b) a majority—or minority—controlled manufacturing or non-manufacturing subsidiary (such relationship is sometimes referred to as a joint venture); (c) a local branch of the licensor or technology supplier (in a country where such a branch is considered a legal entity); (d) a manufacturing or non-manufacturing enterprise or a group of enterprises in which the licensor or technology supplier has no control or other interest; (e) an individual; (f) a government or a semi-autonomous government organization or a government sponsored institution.

96. National institutional machinery in a developing country, set up to review and approve the technology transfer transaction, may be called upon to assist the parties, particularly by giving advice to the prospective licensee or technology transferee in the negotiation and in the preparation of the appropriate industrial property licenses and technology transfer agreements.

97. The recipient enterprise in a developing country may use for a particular project a multiplicity of suppliers for the different "elements of technology" (e.g., product or process technology, engineering design, plant construction, management) it requires, as, for example, by entering into agreements with the original manufacturer of the product or user of the process or with a number of consulting groups, machine manufacturers and the like, or the transfer operation may be mainly dominated by one technology supplier. The latter case is often called a "packaged" transfer because the supplier not only makes some specific element of knowledge available—for example, the product or process technology—but may also undertake all feasibility studies, the engineering design, the plant construction and ultimately the management of the new enterprise, often by subcontracting, with or without participation in the equity of the recipient enterprise, so that the method of production and also the techniques of distribution are transferred as a package (i.e., a "turnkey" project). Turnkey projects in developing countries need to be scrutinized with care, particularly as concerns their impact on resort to available alternative local sources of supply for the different elements of the technology transaction and on the price of that transaction.

98. Some technology transferors who manufacture a given product or use a given process and have their own engineering resources will transfer the product or process technology directly to the technology transferee and assist it in the construction of the necessary production facilities. Others prefer that the technology transferee select international contractors who have been employed to build industrial plants for the technology transfer itself or for other technology transferees of the transferor and who can bring to bear the benefit of their cumulative experiences in building such specialized plants. On the other hand, the technology transferee may prefer to select its own contractor or to use multiple suppliers for other elements than the basic product or product technology. This choice, however, may not result in

obtaining the best possible industrial plant, it may affect the scope of the guarantees that the supplier of the basic technology is willing to give, it may pose problems in the implementation and operation stages, and it may have a significant effect on the price that the technology recipient ultimately pays for the technology transfer transaction.

99. In any event, it may be accepted as axiomatic that no technology transfer transaction will continue successfully unless one individual or group on each side is charged specifically with some sort of supervision of that transaction from the original negotiations through the life of the license or the agreement and any aftermaths arising upon its termination or expiration.

E. Negotiation of the Terms and Conditions of the Technology Transfer Transaction

100. The negotiation of the terms and conditions of the technology transfer transaction between the interested parties can be a complex and difficult undertaking.

101. For the average technology transfer transaction, six months may very well be the minimum period (with as long as two and even three years sometimes necessary) for the negotiations and the preparation of the necessary legal documents reflecting the understanding of the parties of the terms and conditions negotiated.

102. During the period of negotiations and the drafting of the legal documents, a number of meetings between the parties may be necessary, involving for both interim consultations with their respective specialists, locally and abroad, as well as with appropriate government officials, on the legal, commercial, financial and technical aspects of the transaction.

103. Many large firms with operations in different countries attempt to use more or less standard industrial property licenses and technology transfer agreements. These often represent their initial bargaining posture. By being aware of alternative possibilities, however, the licensee or technology recipient will be in a better position to ensure his needs as well as the needs of the developing country.

F. Determination of the Licenses or Agreements to be Concluded

104. The respective performances of the parties to a technology transfer transaction may be governed by and reflected in one legal document embodying the industrial property license or the technology transfer agreement or in a series of inter-related legal documents embodying distinct licenses or agreements.

105. Where the technology transfer transaction is a complex one and certain matters can be divorced from others, it may be better legal practice (and indeed, under the laws in certain countries governing the transfer of technology, it may be necessary) to incorporate each of the various elements in a different license or agreement. Thus, separate licenses or agreements may be used in respect of each matter such as the licensing of the patent or of the trademark, or the supply of the know-how (with possibly the technical know-how or technical information to be supplied set out in one agreement, and the technical services and assistance to be provided included in another or, even still, in distinct agreements each covering an element such as engineering design, plant construction, marketing arrangements, management services, etc.). This approach can facilitate the administration of the commercial, financial and technical aspects of each license or agreement, particularly when the administration of each aspect is confided to a separate unit of the transferor or transferee. This approach can also assist government authorities in their tasks of evaluating each element and determining the adequacy of the price of each such element and the cost of the transaction as a whole provided that there is an appropriate reference in each license or agreement to all the others.

106. When the know-how required is not very extensive, it is common to include all the know-how provisions in the patent license, but when substantial know-how is required it is more usual to draft separately the patent license, the technical know-how agreement and the various technical services and assistance agreements.

107. If the laws of the country do not preclude it, one license or agreement could be drafted covering all elements. Nevertheless, in that event, it is advisable that each of the elements should be set out distinctly and, where, as in certain countries, the laws governing the transfer of technology so require it, each of the elements will need to be priced separately (see Part III, Section N.6, paragraphs 495 and 496).

108. A legal document, however, which combines licenses of two or more types of industrial property rights (e.g., patent and trademark) is vulnerable. The fields of use or activity may differ, the specification of the territory or territories for manufacture or for sale will not necessarily be the same, and distinct calculations of the remuneration will be required depending, in the case of the patent, on the extent of use of the technology, and in the case of the trademark, on the extent of sales or services.

G. Preparation of the Necessary Legal Documents

109. The drafting of the legal document or documents in question is usually commenced after the major points to be negotiated have been settled. In many instances, the document or documents are first drafted by executives, lawyers and patent or licensing specialists or research development organizations, representing the licensor or technology supplier, and then presented to the potential transferee. Representatives of the licensee or technology recipient have traditionally not played a role in the initial preparation of the necessary legal documents. However, there is a growing awareness that their bargaining position could be enhanced through a more active participation in the early stages of that preparation by actually undertaking the drafting, an objective which increased training on the legal aspects of the negotiation and preparation of industrial property licenses and technology transfer agreements should help to achieve.

110. As regards the form and content of the legal documents to be prepared, it may be noted that some enterprises have standard printed forms of industrial property licenses or technology transfer agreements. If it is necessary to develop new forms, the simple patent license may be drafted by house counsel or outside patent or licensing specialists or lawyers and then cleared or approved by the responsible negotiator or other executives or officials of the enterprise before being presented to the other party to the technology transfer transaction.

111. One draft may suffice for a simple patent license, but as many as twelve or more drafts are common for complex licenses or agreements. Negotiations on minor points usually continue during the period of drafting as attempts to reduce the understanding of the parties to legal language reveal the necessity for further discussions to clarify such points. The arrangements for complex technology transfer transactions may involve many drafts and counter-drafts, with or without the help of outside lawyers and patent or licensing specialists and other consultants.

112. As regards the scope of the items or the detail to be included in the license or the agreement, it should be noted that the technology transfer transaction which transcends national boundaries will, when compared to the one which does not, necessarily entail the inclusion of a number of provisions on matters which are not normally reflected in a license or agreement of a domestic nature.

113. These matters include, apart from such inherent concomitants as the specification of the territory for manufacture and for sale, the language in which the expressed intentions of the parties to the license or the agreement are to be regarded as having been made, the currency to be used for measuring the obligation of payment and for expressing the medium of payments, as well as the rate of exchange and tax arrangements, the law and the forum of the country which is to be involved in the event of disputes, and further, if the government has a role in the conclusion of the license or the agreement, it must be considered what role is to be played by each party in seeking the necessary government approval and when the license or the agreement will thus come into force.

H. Concluding Remarks

114. Although there may be no standard or prototype license or agreement, there appears to be one element common to all successful technology transfer transactions, namely the compatibility of the

parties. The technology transfer transaction requires the parties to work together and cooperate toward common goals. The parties should therefore enter into negotiations with a view to creating a legal structure in which they can work harmoniously over the long run to achieve results that neither could achieve alone.

115. Throughout the negotiations and the drafting of the legal documents, as well as in the follow-up of operations, it is evident that a person with legal training has a significant if not indispensable role to play, whether acting as the responsible executive or business counselor, which is often the case, or as a lawyer, in which event he must be familiar with the commercial and financial policies of the prospective licensor or technology supplier and of the potential licensee or technology recipient, as well as with the technical aspects of the given technology transfer transaction.

PART III
EXPLANATORY NOTES
AND
EXAMPLES

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PART III:
EXPLANATORY NOTES AND EXAMPLES⁽¹⁾

A. INTRODUCTORY ASPECTS

(Type of license or agreement; choice of title; introductory provisions; place and date of the making or of the conclusion or of the signature of the license or the agreement; effective date; identification of the parties or other persons who are involved with the negotiations or who are holders of rights and their capacity or status)

116. In Part I (Introduction) of this Guide, various types of industrial property licenses and technology transfer agreements were identified and described. Once the parties have determined the licenses and agreements which are to be concluded, they may turn to the task of preparing the document or documents setting forth the terms and conditions of the licenses or the agreements selected.

117. The document in question will also contain, however, in addition to various terms and conditions on such points, among others, as the rights granted, the know-how to be supplied, the remuneration, payment, duration, settlement of disputes, etc., one or more provisions of an introductory nature which, together with a preamble consisting of whereas clauses or recitals (see Section B, paragraphs 124 to 127), form the first part of the document.

118. Typically, an introductory provision will include the title of the document (e.g., "Patent License" or "Technical Know-How Agreement") (2). Such a characterization by the parties is evidentiary of the nature of the legal arrangement intended by them and can be an aid in the interpretation of the document.

119. The introductory provision also usually identifies the parties to the license or the agreement by giving, as to each, its legal name, its nature as a legal entity, its place of legal organization and the place where its principal office is located. The provision may also give indications as to other persons who were involved in the negotiations or who are the holders of rights which are the subject of the license or the agreement yet are not parties to it. Accurate designations of the parties and such other persons and of their capacity or status can be important in the event of disputes arising with respect to the scope of the guarantees or other commitments and in identifying those responsible for their fulfillment.

(1) *Note on Terminology*

In the interest of simplicity, the words "Transferor" and "Transferee" are employed either individually or together, rather than the corresponding words "Licensor" and "Licensee" (which are normally used in relation to the Industrial Property License) or "Technology Supplier" and "Technology Recipient" (which are normally used in relation to the Technology Transfer Agreement), whenever the example in which the words appear is suitable for inclusion in either the Industrial Property License or the Technology Transfer Agreement. The word "Agreement" alone, rather than the words "License or Agreement", has generally been employed throughout the examples except where the word "License" is more appropriate in the light of the context.

(2) *Agreement*

Agreement made and entered into at (place) this (day) of (month) (year) by and between (name of the Transferor), a (legal entity) organized and existing under the laws of (specified country), having its principal office in (city) (country) (hereinafter called "the Transferor"), and (name of the Transferee), a (legal entity) organized and existing under the laws of (specified country), having its principal office in (city) (country) (hereinafter called "the Transferee").

120. Further, the introductory provision may set forth the place of the making or the conclusion or the signature of the license or the agreement. The specification of the place can be a factor in determining the applicable law in the case where no provision on that point is included in the license or the agreement, especially if the normal rules concerning the choice of law are applicable as a result of the absence of a legislative directive that the courts should apply the law of a specified country (see Section V: Settlement of Disputes, paragraphs 616 to 646).

121. The date when the license or the agreement was made, concluded or signed may also appear in an introductory provision though some parties prefer that this date be indicated later where, along with the signatures of the parties (3), it constitutes that part concerned with execution (see Section Y: Execution, paragraphs 651 to 655).

122. While nothing precludes the parties from indicating the date of the making or the conclusion or signature in an introductory provision or in a concluding provision in the document or at a place juxtaposed to their signatures in the part of the document concerned with execution, care should be taken to avoid giving different dates in each instance. Where the signatures of the parties are affixed on different dates, at least the controlling date should be indicated. Discrepancies in the stated dates may cause difficulties in fixing the date of the conclusion of the license or agreement. That date can be important particularly under legislation in certain countries which require that the license or the agreement be submitted for the approval of government authorities within a specified period after its conclusion (see Section U: Approval of Government Authorities, paragraph 615).

123. It should be noted that a distinction is sometimes made between the date of the making or conclusion and the subsequent effective date of the license or the agreement. The latter date may be a date fixed by the parties or a date inserted by them at an appropriate place in the document at a later stage after the date of the making or the conclusion or the execution (4). The practice of inserting an effective date is common in those cases where the approval of government authorities is necessary before the license or the agreement may come into force or be given legal effect (see Section U: Approval of Government Authorities, paragraph 615).

B. PREAMBLE: WHEREAS CLAUSES; RECITALS

(Statement of the purpose, objectives and reasons for the license or the agreement; use, necessity and content of whereas clauses or recitals; interpretation and conflicts with other provisions in the license or the agreement)

124. The document embodying the industrial property license or the technology transfer agreement may contain a preamble consisting of whereas clauses or recitals which state the purpose and objectives of the license or the agreement and give the reasons for it.

125. Such whereas clauses or recitals are notably common in licenses or agreements concluded by licensors or technology suppliers of certain countries. They may appear as unnecessary to prospective licensees and technology recipients who are more familiar with the legal practice of drawing up short legal documents that set forth certain basic obligations of the parties but do not contain descriptive or explanatory matter and otherwise are conceived and construed in the context of a differently structured legal system.

(3) See note (315), *infra*.

(4) See note (315), *infra*.

126. When whereas clauses or recitals are resorted to, they usually describe the business background of the parties to the license or the agreement (5) (6) (7) (8), explain the reasons why the parties are concluding it (9) (10) (11) (12), relate the history of their negotiations, refer to any prior or concurrent arrangements (13), contain representations as to the ownership of industrial property rights (14) (15) (16), or the possession of technical know-how, skills and expertise (17), express the desire and willingness of the parties to conclude the license or the agreement (18) and their belief that it will be of mutual advantage (19), affirm that its conclusion will promote economic development (20), and agree to its terms and conditions (21).

127. Whereas clauses or recitals may be an aid in interpreting the intention of the parties as to all or any part of the license or the agreement. Although different points of view do exist as to their legal necessity and as to the effect to be given to them, where differences arise between the whereas clauses or recitals and the provisions in the body of the license or the agreement, the language of the latter usually prevails (see Section V: Settlement of Disputes, paragraph 620).

(5) *Business Background, Example 1*

Whereas, the Transferor has for a considerable number of years been a manufacturer of (description of the Product) and has acquired a substantial amount of know-how embodied in the design of the Product and utilized by it in the manufacture of (description of the Product);

(6) *Business Background, Example 2*

Whereas, the Transferor has developed certain processes, methods, formulae and techniques used in manufacturing, storing and handling (description of the Product) and possesses substantial valuable knowledge of a specialized nature relating to basic operational technical aspects of such processes, methods, formulae and techniques and continues to acquire information, skills, expertise and reputation relative to the manufacture of (description of the Product);

(7) *Business Background, Example 3*

Whereas, the Licensor and its associates own industrial property rights and have developed know-how based on extensive research and development work and commercial experience in the design, installation and operation of facilities for the manufacture of (description of the Product) by (description of the process);

(8) *Business Background, Example 4*

Whereas, the Transferor itself operates facilities for the manufacture of (description of the Product) and has experience in the (design, installation, operation and maintenance of such facilities);

(9) *Desire and Willingness of Parties, Example 1*

Whereas, the Transferee desires to erect in (specified country) facilities for the manufacture of (description of the Product);

(10) *Desire and Willingness of Parties, Example 2*

Whereas, the Licensee desires to obtain, and the Licensor is willing to grant, a license for the Licensor's industrial property rights (each as hereinafter defined) in the design, installation, operation and maintenance of such a facility;

(11) *Desire and Willingness of Parties, Example 3*

Whereas, the Transferee desires to have the advantage of the Transferor's technical knowledge and experience in the design, installation and operation of such facility in (specified country) and the Transferor is willing to supply such technical knowledge and the advice of such experience, all upon the terms and conditions hereinafter set forth;

(12) *Desire and Willingness of Parties, Example 4*

Whereas, the Licensee desires to obtain, and the Licensor is willing to grant, a license for certain industrial property rights and to supply certain know-how, technical information, and technical services and assistance to enable the Licensee to manufacture the Product;

(13) See notes (294) and (295) *infra*.

(14) *Patents; Utility Models; Industrial Designs*

Whereas, the Licensor owns and maintains various letters patents on inventions, utility models, industrial designs and applications therefor in (specified country) and other countries relating to [the Product] [the Process] and has the right to grant to others the license to [make, have made, use or sell the Product] [apply the Process] [exploit the industrial design] and has developed know-how related to such patents, utility models and industrial designs;

(15) *Industrial Design*

Whereas, the Licensor represents that it is the exclusive owner of a design registration issued by [specified country] [the International Bureau of the World Intellectual Property Organization (WIPO)] relating to (description of the Product) and is now preparing applications for similar designs in (specified country or countries), as well as in various other countries throughout the world;

(16) *Trademark*

Whereas, the Licensor is the owner of [an application for the registration of] the trademark "XYZ" in (name of country), which [trademark] [application] has been assigned No. . . . , dated . . . , [and which is based upon (country) Trademark Registration No. . . . , dated . . .] used to designate the Product manufactured according to the invention(s) covered and secured by Letters Patent of (country) No. . . . ;

(17) See notes (5), (6), (7) and (3) *supra*.

(18) See notes (9), (10) and (11) *supra*.

(19) *Mutual Advantage*

Whereas, both the Licensor and the Licensee believe that it will be of mutual advantage for the Licensee to be permitted by the Licensor to manufacture and sell the Product in (specified country);

(20) *Benefit of Interest to the Transferee's Country*

Whereas, the consummation of this Agreement will [substantially benefit] [be in the interest of] the industry of (specified country) and the economy of that country, in that . . . ;

(21) *Agreement as to Terms and Conditions*

Now, therefore, in consideration of the premises and of the mutual covenants and conditions herein contained, the Parties hereto have agreed and do by these presents agree as follows:

C. DEFINITIONS OF KEY WORDS AND EXPRESSIONS

(Terminology; clarity, preciseness and consistency in the use of words and expressions; importance of definitions; place of the definitions in the document; key words or expressions to be defined; method of definition)

128. The terminology used in the document embodying an industrial property license or technology transfer agreement should be such as to express clearly and concisely the understanding reached between the parties. Precision in expression can be facilitated if certain key words and expressions are defined and used in a consistent manner throughout the document. Further, the very process of arriving at agreed definitions can assist the parties in clarifying their ideas and thereby may prevent otherwise unnecessary disputes in the future. Because of language barriers and the differences in the legal systems which prevail in the various countries where the parties are likely to have contacts, definitions assume a particular importance in documents embodying an industrial property license or technology transfer agreement of an international character.

129. A separate provision setting out definitions of key words and expressions often appears in an industrial property license or technology transfer agreement after that initial part which includes the introductory provisions and the preamble consisting of whereas clauses and recitals (22). Alternatively, when basic words or certain expressions or concepts are first employed or referred to, they may then be defined or designated and thereafter that definition or designation is used in lieu of the basic word, expression or concept.

130. The key words or expressions to be defined are normally those which are repeatedly used in the document. They are typically basic technology (23), patents (24) (25) (26) (27) (28), trademarks (29), license (30), agreement (31), know-how (32), technical information (33), (34), improvement (35), development (36), technical services and assistance (37), field of use or activity (38), product (39), components (40), process (41), plant (42), start-up date (43), equipment (44), standard of quality (45), and territory (46). Among others are: net selling price (47), year and accounting year (48), party and parties (49), transferor and transferee (50), licensor and licensee (51), subsidiary (52), affiliate (53), associate (54), direct or indirect control (55), third person (56), date, or effective date of, or during the term of, the agreement (57) (58).

(22) *Definitions*

For the purpose of this Agreement, the following terms shall have the following meanings: (see notes (23) to (57), *infra*.)

(23) *Basic Technology*

"Basic Technology" means the technology reflected in the invention(s) and industrial design(s) that are the subject of the Patent(s) as well as the technology reflected [by the Know-How] [in the Technical Information].

(24) *Patents, Example 1*

"Patent(s)" means the patent(s) listed in Schedule No. ... hereto.

(25) *Patents, Example 2*

"Patents" means the patents and patent applications of (the specified country of the Licensor), and transferable rights thereunder, to the extent and only to the extent that the claims thereof cover subject matter within the field of use, which [are based on inventions made] [have been granted or filed] prior to the Date of this Agreement and in respect of which the Licensor shall have the right to make the grants provided for in this Agreement, subject in each case to the conditions under which the Licensor now has or hereafter acquires the right to make such grants.

(26) *Patents, Example 3*

"Patents" means patents and patent applications therefor, and transferable rights thereunder, of the Licensor to the extent and only to the extent that the claims thereof cover subject matter within the field of use, which [are based on inventions made] [have been granted or filed] two (2) years prior to the Start-Up Date of the Plant.

(27) *Patents, Example 4*

"Patents" means patents and applications therefor of the Licensor of all countries now or hereafter owned or controlled (in the sense of having the right to grant licenses hereunder) to the extent and only to the extent that they or the claims thereof cover one or more features of the [Product] [Process (including, but not by way of limitation, apparatus and catalysts for carrying out the Process, techniques for regenerating such catalysts, and products from the Process)], which [are based on inventions, made] [have been granted or filed] prior to (date), or one year after the Start-Up Date (as hereinafter defined) of the Plant whichever is earlier, and as to which inventions the Licensor shall have the right during such time to make the grants provided for in this Agreement, subject in each case to the conditions under which the Licensor now has or hereafter acquires the right to make such grants.

(28) *Patents, Example 5*

"Patents" means those letters patent, utility models and applications therefor presently owned or hereafter acquired by the Licensor or in respect of which the Licensor has or may have the right to control or to grant licenses during the term of this Agreement in any country or all countries of the world and which are applicable to or may be used in the [manufacture of the Product] [application of the Process].

(29) *Trademarks*

"Trademarks" means the trademarks the short particulars of which are set forth in Schedule No. ... of this Agreement.

(30) *License*

"License" means the license of the rights as concerns [the Patents] [the Trademarks] referred to herein.

131. The definition of a given word or expression may simply state a legal precept of the legal system which may be, or is necessarily, applicable to the industrial property license or technology agreement. In other instances, the definition may modify that precept in a permissible manner or it may set out a meaning chosen among a number of possibilities.

(31) *Agreement*

See notes (291) to (293), *infra*.

(32) *Know-How*

"Know-How" means all the manufacturing knowledge, written or oral, whether in the form of unpatented inventions, formulae, procedures and methods, or current and accumulated skills or experience which the Transferor has acquired or may hereafter acquire, in so far as may be necessary to the Transferee in the [design of the Product, in the design of the equipment for the manufacture of the Product, in the manufacture of the Product, or in the operation, maintenance, use, sale or other disposition of the Product] [application of the Process].

(33) *Technical Information, Example 1*

"Technical Information" means all physical matter in the form of drawings, blueprints, diagrams, catalogues, specifications, instructions and lists, with respect to the application of the Process, whether patented or unpatented, which would be useful for the design, operation or maintenance of facilities utilizing the said Process and which shall have been developed or otherwise acquired by either the Transferor or the Transferee prior to two (2) years after the Start-Up Date of the Plant (as hereinafter defined) or January 1, 19... , whichever is earlier, and which such Party shall have the right to provide, but shall not include information acquired from third persons which is subject to restrictions preventing disclosure, as well as such additional technical information as is developed or acquired thereafter by either the Transferor or the Transferee prior to five (5) years after the Start-Up Date of the Plant or (date), whichever is the earlier, to the extent that such additional technical information has been demonstrated commercially in the facilities of the Transferor or its associates and is applicable to improving the operation and manufacture of the Plant operated hereunder by the Transferee, but shall not include information acquired from third persons subject to restrictions preventing disclosure.

(34) *Technical Information, Example 2*

Technical Information means

- (i) drawings or other constructional data of machinery, tools and equipment for the [assembly] [manufacture] of the Product [application of the Process],
- (ii) lists of Equipment needed so as to arrive at an optimum efficiency in the [assembly] [manufacture] of the Product [application of the Process],
- (iii) specifications of the measuring instruments best suited for the most efficient system for local production engineering regarding the [assembly] [manufacture] of the Product [application of the Process],
- (iv) general descriptions (including documents, drawings, blueprints, specifications and standardization-sheets) of the [assembly] [manufacture of the Product, in its successive stages] [application of the Process],
- (v) testing instructions regarding the mechanical and electrical requirements which are applicable to the Product,
- (vi) instructions regarding the most suitable packing of the Product,
- (vii) circuit diagrams, as well as schematic diagrams with drawings, of the Product,
- (viii) lists of parts of the Product, and
- (ix) such other information as may be necessary for the [manufacture, operation, maintenance, sale or other disposition of the Product], [application of the Process], [and of any Improvement thereon] which are held or may be hereafter produced or acquired by the Transferor or which the Transferor now has or may hereafter acquire the right to control and furnish to the Transferee during the term of this Agreement.

(35) *Improvement*

"Improvement" means any technological advance which is not reflected in an invention or industrial design that is the subject of the Patent(s) but which is patentable or is the subject of a patent granted or of an application for the grant of a patent and which would, if exploited, [reduce the cost of the manufacture of the Product [by at least (specified) per cent]] [increase the sales of the Product [by at least (specified) per cent]] [reduce the cost of the application of the Process [by at least (specified) per cent]] [increase the output of the application of the Process [by at least (specified) per cent]].

(36) *Development*

"Development" means any technological advance which is related to the Product or the Process and which is not an Improvement that is the subject of a patent or of an application for the grant of a patent, as well as any technological advance which is not reflected in the Technical Information.

(37) *Technical Services and Assistance*

"Technical Services and Assistance" means the provision through technical or professional expertise of the services and assistance described in Articles ... and ... (see note (163), *infra*) of this Agreement.

(38) *Field of Use or Activity*

"Field of Use or Activity" means the exploitation of the Basic Technology, the Improvements and the Developments for the purpose of the [manufacture of the Product] [application of the Process] [use of the Trademarks] [other specified purpose].

(39) *Product*

(a) "Product" means (description of the Product) which is manufactured, assembled, used or sold [under this License] [in accordance with the Know-How, Technical Information, or Technical Services and Assistance furnished pursuant to this Agreement] [and identified by any Trademark covered by this License].

(b) "Licensor's existing Product" means the Product that is now or has been in the past manufactured or assembled and offered and sold commercially by the Licensor in (specified country or countries);

(c) "New Products" means all products other than the Product, hereafter manufactured and hereafter offered to the general public and sold commercially by the Licensor in (specified country of the Licensor).

(40) *Components*

"Components" means parts of the Product (e.g., where the Product is a machine) and functional accessories thereto, including but not limited to ... and ..., but shall not include accessories which are not necessary to the functioning of the Product as an operating unit, e.g.

(41) *Process*

(a) "Process" means (description of process) that is devised for and utilized [to manufacture the Product] [in the application of (description of another process)].

(b) "Licensor's existing Process" means the Process that is now or has been in the past developed and offered and sold commercially by the Licensor in (specified country or countries).

(c) "New Process" means all processes other than the Process hereafter developed and offered to the general public and sold commercially by the Licensor in (specified country of the Licensor).

132. In this connection attention is drawn to the laws in some countries governing the transfer of technology in which certain words or expressions are given a meaning. Typical of such statutory definitions are remuneration and price, the essential elements of which are given and serve as the criteria for calculating the return on the technology supplied, and such related terms as net value, or net price, net receipt, or net selling price, which are similarly defined.

(42) *Plant*

"Plant" means the Plant constructed hereunder in (specified country) [for the manufacture of the Product] [for the application of the Process].

(43) *Start-up Date*

"Start-Up Date" of the Plant means the date when the Product is first produced by the said Plant.

(44) *Equipment*

"Equipment" means the items listed in Schedule No. . . .

(45) *Standard of Quality*

"Standard of Quality" means the standard of quality in materials and workmanship, set by agreement between the Licensor and the Licensee, which also takes into account applicable governmental regulations, to achieve the quality standard of the Licensor for the Product [upon or in relation to which the Trademark is used] had the Product been manufactured by the Licensor.

(46) *Territory*

(a) "Exclusive Territory" for the purpose of [manufacture] [use] [sale] means (specified country or countries).

(b) "Non-Exclusive Territory" for the purpose of [manufacture] [use] [sale] means (specified country or countries).

(c) "Agreed Territory" for the purpose of [manufacture] [use] [sale] means collectively Exclusive Territory and Non-Exclusive Territory defined above.

(d) The expressions "Exclusive Territory" and "Non-Exclusive Territory" in all cases shall mean the area covered by the countries so listed as aforesaid as they are now known, or as they may hereafter become known; provided that where any territory shall be divided into separate politically controlled States either Party hereto shall have the right to require that one or more of such divisions shall be excluded from this Agreement by notice in writing to take effect (number in words) (number in figures) days after such notice shall have been given.

(47) *Net Selling Price*

"Net Selling Price" means the invoice price of the Licensee of the Product sold, leased or otherwise disposed of by the Licensee to any third person in a nominal arm's length trade, during the term of this Agreement; such price shall not include normal discounts actually granted by the Licensee, the f.o.b. value of raw materials, intermediate goods, parts or other components supplied, directly or indirectly, by the Licensor as well as standard bought-out components used in the Product manufactured by the Licensee, insurance fees and packing and transportation charges as invoiced separately to customers, and duties and taxes actually incurred and paid by the Licensee in connection with delivery of the Product.

(48) *Year; Accounting Year*

(a) "Year" means a period of twelve (12) calendar months expiring on the anniversary of the Effective Date.

(b) "Accounting Year" means any year of twelve (12) consecutive calendar months beginning with January 1st of each calendar year during the term of this Agreement, except that the first "Accounting Year" shall begin with the date upon which the Product manufactured hereunder by the Licensee shall first be shipped for sale or use, and shall end on the following December 31st, and the last "Accounting Year" hereunder shall end upon the (number in words) (number in figures) anniversary of the aforesaid date.

(49) *Party; Parties*

"Party," "Parties," "Parties hereto" mean the Licensor, the Licensee, either the Licensor or the Licensee or both the Licensor and the Licensee, as the case may be.

(50) *Transferor; Transferee*

(see notes (1) and (2), *supra*)

(51) *Licensor; Licensee*

(see notes (1) and (2), *supra*)

The expressions "Licensor" and "Licensee" in this Agreement shall be deemed to include wherever the context so permits their respective Subsidiaries, Affiliates and Associates.

(52) *Subsidiary*

"Subsidiary" means any legal entity [which is wholly owned and controlled, directly or indirectly] [more than fifty per cent (50%) of the outstanding shares of stock of which is owned outright or beneficially] [the management or policy of which is directed, directly or indirectly] by the [Licensor] [Licensee].

(53) *Affiliate*

"Affiliate" means any legal entity in which the [Licensor] [Licensee] has a financial interest or as to which its relationship is such that it substantially influences its business policies and activities.

(54) *Associate*

"Associate" means (i) any person or legal entity which controls, or (ii) any legal entity which is controlled by, or (iii) any legal entity which is controlled by any person or legal entity which controls, the [Licensor] [Licensee].

(55) *Control*

"Control" of the [Licensor] [Licensee] by a person or legal entity or control of a legal entity by the [Licensor] [Licensee] means directly or indirectly holding fifty per cent (50%) or more of its issued shares or of the voting power therein or having the power to appoint the majority of its directors or otherwise having the power to direct its business activities.

(56) *Third Person*

"Third Person" means a person or legal entity which is neither a Party to this Agreement nor an Affiliate or an Associate of such Party.

*Date of this Agreement; Effective Date;
During this Agreement*

(a) "Date of this Agreement" means, if this Agreement is signed on behalf of each Party hereto on the same date, that date of signature; otherwise it means the later of the dates of signature.

(b) "Effective Date" means the date mentioned, inserted and initialed in the space provided in this Agreement after both Parties have executed this Agreement [and after Governmental Approval of this Agreement has been obtained, whichever is the later].

(c) "During this Agreement" or "During the term of this Agreement" means the period during which this Agreement is fully in force.

(58) See also note (274), *infra*.

D. SCOPE OF THE LICENSE OR AGREEMENT

(Identification of the technology necessary for the manufacture of the product or the application of the process or for some other given purpose; description of the technology in terms of time or by reference to specified documentation or designated expertise; rights conferred under the law of industrial property and laws applicable to the use, disclosure and communication of know-how; field of use or activity for which the invention, the industrial design, the know-how, or the trademark may be applied; specification of the territory of manufacture, use or sale; exclusivity and non-exclusivity; acquisition or use of competing technology)

1. Identification and Description of the Basic Technology

133. When the parties are negotiating the terms and conditions of an industrial property license or a technology transfer agreement, they usually proceed on the basis that certain technology is necessary for the manufacture of the particular product or the application of the particular process.

134. The state of that technology at a given time during the negotiations, the likelihood that further advances in that technology are in the making or will result within the span of the negotiations or during a subsequent foreseeable period, as well as the capabilities of the licensee or technology recipient to absorb those advances within the time and with the capital investment available once operations commence, are factors which the parties must take into account in identifying and describing the basic technology which ultimately will be the subject of the license or agreement.

135. The negotiations may concentrate on identifying the basic technology (59) as that existing at a given time or within a stated period, as, for instance, the technology which the licensor or technology supplier has on (60), or at a specified date prior to (61), the execution of the license or agreement or which he acquires or develops thereafter up to a specified date, such as the date of government approval or before installation of the plant commences (62) or its internal layout is determined or its operation is started or within a specified period thereafter (63), or, perhaps as well, during the term of the agreement (64).

136. With these time limits in mind, it will be possible for the parties not only to identify the technology concerned but also to make sufficient provision in the license or agreement for its description, taking into account the measures taken, or to be adopted, for its communication and disclosure.

137. Where the parties have identified the technology in question as that existing at a particular point in time, it may be possible to describe that technology in the license or the agreement by a specification of the documents which reflect that technology (65). In the case of patent documents, the specification may appear in a schedule attached to the license or agreement which gives certain data, such as the country where the patent is registered or granted, the filing date of the application, the country where it was filed, the title of the invention and the status of the application (66). Similar data may be given in respect of utility models, industrial designs and trademarks (67). As regards know-how, technical information can be described in terms of a specification of the relevant documentation--the drawings, equipment, lists, blueprints, diagrams, etc. (68). As regards the technical and professional expertise to be provided, job descriptions can be worked out for each expert. This information can be set forth in appendices, annexes or schedules attached to the license or the agreement (69).

138. A further way of identifying and describing the technology is in terms of the field of use or activity for which the technology may be exploited (70). Thus the technology to be transferred could be defined by delineating its purpose, as for example, by identifying and describing it as all the technology related to instruments used for the purpose of writing (this would include, e.g., fountain pens, ball-point

(59) See note (23), *supra*, and paragraph 78 (viii).

(60) See note (24), *supra*.

(61) See note (25), *supra*.

(62) See note (26), *supra*.

(63) See note (27), *supra*.

(64) See note (28), *supra*.

(65) See notes (24) to (28), *supra*.

(66) See note (24), *supra*.

(67) See note (29), *supra*.

(68) See notes (32), (33) and (34), *supra*.

(69) See note (37), *supra*, and Section H, paragraphs 300 to 317.

(70) See notes (25), (26) and (38), *supra*.

pens, and felt-tipped pens) or as all that technology reflected in a given invention or a given industrial design or in specified know-how which is to be applied in the manufacture of ball-point pens (i.e., this would not include, e.g., fountain pens and felt-tipped pens). Technology not falling within such a definition would be regarded as either a technological advance in the nature of an improvement or development or different or new technology (see Section F, paragraphs 232 to 234) (71). A fuller explanation of the concept of the field of use or activity, together with various illustrations may be found in a subsequent sub-section of this section of the Guide (see Section D.3, paragraphs 147 to 160).

139. Even this method of identifying and describing the technology, particularly if the reference is to all the technology that is necessary to manufacture a given product or to apply a given process or that is required for some other given purpose may pose problems, especially where there is no qualification which fixes that technology as that existing at a particular point in time or acquired or developed by the transferor during a specified period. In that event, apart from listing the types of technical information and including job descriptions of the technical and professional experts, the parties may have to settle for an imprecise formula and rely on their mutual willingness to pursue in good faith their dealings.

140. Further, it should be noted, as indicated more fully in a subsequent sub-section of this Section of the Guide (see Section D.3, paragraph 159), the identification and description of the technology in terms of one or more given fields of use or activity may have a bearing on the price of the technology and therefore this element must be taken into account by the potential technology transferee in the negotiation of the terms and conditions upon which the prospective technology transferor may be willing to part with the technology.

141. The method of identifying and describing the technology usually differs in the case where industrial property rights alone are being licensed or where know-how or technical information related to inventions or industrial designs that are the subject of those rights is to be supplied, as distinct from the cases where know-how or technical information are not related to such rights or where technical services and assistance are to be provided. In the former case, reference is usually made to given patents or applications therefor or to a specified industrial design that delineates the scope of the basic technology. Technological advances not within that scope are regarded as improvements or developments which, if process technology is concerned, may require the conclusion of a separate license or agreement, whereas if product technology is concerned, they may be provided to the technology transferee without further remuneration. In the case where know-how or technical information alone is to be supplied or where technical services and assistance are to be provided, usually the description is in terms of the result or purpose to be achieved, i.e., the defined field of use or activity (see paragraphs 147 to 160), and the know-how or technical information may be supplied or the technical services and assistance may be provided for the duration of the agreement.

142. Attention is directed to the legislation in certain countries governing the transfer of technology which requires that the license or agreement define explicitly and comprehensively the technology to be transferred, identify the patents or trademarks which are the subject of the license or agreement, outline or itemize the technical information, and specify the qualifications, fields of specialization and activities of the technical and professional experts.

2. *Scope of the License or Agreement in General*

143. A patent, a registered trademark or industrial design, or other subject which is protected under the law of industrial property, confers upon its owner, for a limited time, the right to preclude third persons from doing certain acts and, in addition, the faculty to grant some other person or persons a license, for example, in the case of a patent, to exploit the invention, or in the case of a registered trademark or an industrial design, to use it.

144. So also, the supplier of know-how may prevent, under certain circumstances and for a certain period, the use, disclosure or communication of the know-how by third persons, and may transfer the know-how to others (see Section G, paragraphs 238 to 284).

(71) See also notes (35) and (36), *supra*.

145. Within the limits defined and under the conditions provided by the law, the licensor or the technology supplier may wish to determine who shall exercise which of the rights conferred by the patent or by the registered industrial design or trademark, or to decide who shall receive the know-how, and upon what terms and conditions, including the purpose or purposes for which the patented invention and the know-how or the registered industrial design or trademark may be applied, for what length of time, in which areas, and for what price or remuneration, bearing in mind the desire to obtain the maximum return on his investment in creating or developing the invention, the know-how, the industrial design or the trademark in question.

146. These matters are treated either in this section or in other sections of the Explanatory Notes and Examples. Thus this section considers the purpose or purposes for which the invention, the industrial design, the know-how or the trademark may be applied ("field of use or activity") (see paragraphs 147 to 160), and the areas in which the rights under the industrial property license shall be exercised or the technology used ("specification of the territory") (see paragraphs 161 to 185). The subject of remuneration is considered in Section N (Compensation; Consideration; Price; Remuneration; Royalties; Fees) (see paragraphs 390 to 496) whereas the matter of who shall exercise the industrial property rights or use the know-how involved is examined in Section Q (Rights of Related Enterprises; Transfer and Assignment; Sub-Licensing; Sub-Contracting) (see paragraphs 537 to 547) and the questions involved in the duration of the licensor's rights and the use of the technology are examined in Section T (see paragraphs 577 to 601), which deals with the subject of duration, among others.

3. *Field of Use or Activity*

147. A provision on the field or fields of use or activity delineates the purpose for which the invention, the industrial design, the know-how, or the trademark may be applied. It serves to define the scope of that application by the licensee or technology recipient. At the same time, depending on that defined scope, the technology supplier may also be able to grant a license or supply know-how to each of a number of other licensees or technology recipients, each specializing in different applications of the invention, industrial design, know-how or trademark, thus permitting the most practical way of exploitation given the capabilities of each particular licensee or technology recipient.

148. The purpose may relate to the end use to which a particular product may be put, or to the end products which may be produced with a particular device, process, or know-how, or to a particular machine or process which in turn goes into applying another process rather than in producing an end product. Further, the field or fields of use or activity may be differently qualified depending on whether a particular industrial property right is licensed or on whether a technology transfer agreement is involved.

149. Thus, in the case of a *patent* license for a particular product or process the field or fields may be described in terms of one or more specified uses among the different possible end uses of the particular product or process. For example, a pharmaceutical product might be useful in the field of human medicine as well as the field of veterinary medicine. Similarly, a particular process might be useful in the manufacture of industrial diamonds for cutting glass as well as in the making of fine stones for inclusion in a piece of jewelry, or the particular process might be useful in drawing tungsten filaments, which can be incorporated in light bulbs as well as in radio tubes.

150. With respect to an *industrial design* license, the field of use might refer to a specified style or size of the product, as, for instance, the shape of a bottle destined for use as a perfume container, which shape could also be employed for a liquor bottle.

151. As regards a *trademark* license, the description of the field of use may single out a specified product or category of products among those for which the trademark is registered. Thus, the field may extend to use of the trademark for perfume or for all toilet articles but not for wearing apparel. The field of activity may be a specified advertising medium, as, for example, by indicating that the product bearing the trademark should be advertised in newspapers, to the exclusion of radio and television.

152. As in the case of a license of an industrial property right, when the subject matter is *know-how*, the technology transfer agreement may delineate the field of use or activity in terms of specified technological fields, particular branches of industry, or certain stages or types of production. Thus,

where know-how is capable of application in more than one technological field, the provision on the field of use or activity may limit the exploitation of the know-how to a specified technological field to the exclusion of others (e.g., the cooling of high-speed drills, which may be used in dental equipment or in earth-boring oil rigs or in other machine tools). Similarly, the application of the know-how may be confined to a particular branch of industry (e.g., the use of a microorganism in food processing to the exclusion of fertilizer production) or to a certain stage or type of production (e.g., the coagulation of rubber latex; the production of sugar (sucrose) by the use of alcohol as the extracting agent).

153. The provision on the field of use or activity, whether included in an industrial property license or a technology transfer agreement, may describe the field of use or activity in terms of one or more channels of distribution, as by indicating that the product may be sold to specified customers or users (e.g., clothes washing machines to be sold for use in private homes but not for use in laundries or other commercial establishments), or in a particular state (e.g., "bulk" as opposed to "finished") or for a designated form of consumption (e.g., "animal use only"), or, possibly, in a specified combination of these.

154. A provision in an industrial property license or technology transfer agreement which might be perceived initially as defining the field of use or activity may in fact be another way to calculate royalties. For example, the licensor of a patent for electric motors might wish to charge ten cents per unit for small home electric fan motors, but thousands of dollars for large units used in locomotives. If the licensee or technology recipient were interested only in one or two sizes, there might be no mention of other sizes or "fields". But the parties may wish to state that the provision is inserted merely for the purpose of defining what can be done at the specified royalty rate. Other fields could be made available to the licensee or technology recipient upon request at a different specified or to be agreed to royalty rate.

155. The foregoing reflects common practices associated with industrial property licenses and technology transfer agreements.

156. In the case, however, where the licensor or the technology supplier concludes separate licenses or agreements with a number of licensees or technology recipients for the same technology but for use in different fields, it should be noted that laws governing restrictive business practices may apply.

157. Thus it is particularly likely that such laws will apply if the distribution of the various fields of use is the result or means of implementing an agreement directed at eliminating competition among the various licensees or technology recipients, especially where they are capable of competing with each other in the different fields but are limited to a single field. On the other hand, a provision to the effect that the licensee or technology recipient can extend his activities outside the field of use laid down in the license or the agreement with the consent of the licensor or the technology supplier may be acceptable if the consent is not unreasonably withheld.

158. Similarly, charging different royalty rates to competing licensees runs the risk of violating laws governing restrictive business practices while charging distinct royalty rates for different fields of use may be acceptable as long as all licensees or technology recipients in each field pay the same royalty rate.

159. It should be noted that the price of the technology to be acquired may vary according to the purpose or purposes for which the technology is sought to be exploited. The prospective technology transferor may be willing to transfer all the technology in terms of a given field of use or activity or in respect of all the purposes for which, for example, a specified invention, industrial design, utility model or the technical know-how may be applied. In the latter event it is likely that the price asked for will be higher than where a more limited field of use or activity or purpose is agreed upon. Thus, even though in the long-run it may be desirable for the potential technology transferee to have the opportunity to apply the technology for all purposes, the price asked for the transfer of such technology must be compared to a most likely lower price which may be asked for if a more limited purpose is agreed to. The comparison becomes all the more relevant if the potential technology transferee is not currently, nor in the near future likely to be, in a position to exploit the technology for a variety of purposes.

160. Attention is directed to the laws in certain countries governing the transfer of technology under which a provision in a license or agreement limiting the field of use or activity must be judged in the light of the requirement that the price or consideration must not be disproportionate to the technology acquired or constitute an unjustifiable burden on the national economy.

4. *Specification of the Territory of Manufacture and of Sale*

161. In fashioning the legal arrangements for a given technology transfer transaction, the parties may wish to designate the areas in which the right to exploit the invention or the industrial design may be exercised, or in which the know-how may be used. They may also wish to delineate the areas in which the product resulting from that exploitation and use may be sold and in which the trademark, if any, relating to that product, may be employed.

162. The designation of such areas depends on a number of factors. Among these are the competitive position of the parties as between themselves and as against third persons. Thus, the extent to which the licensor or technology supplier has already granted an industrial property license or concluded a technology transfer agreement with others, or contemplates doing so, as regards the area or areas concerned, must be taken into account. Further, an assessment must be made of whether the market potential in certain areas should, and can, be met with the production of the licensor or technology supplier or with the production of one or more potential licensees or technology recipients.

163. These factors are likely to influence not only the designation of the areas within which certain acts—either manufacture or sale or both—may be undertaken, but also the purpose for which the technology may be applied, i.e., the field of use or activity, as well as whether a specified act or acts in a given area will be the exclusive prerogative of one potential licensee or technology recipient or whether their performance may be undertaken also by the licensor or technology supplier himself or by other potential licensees or technology recipients.

164. Once such areas are designated, they are often termed in the license or agreement as the “agreed territory”, which may be defined as encompassing the “exclusive territory” and the “non-exclusive territory” (72). In each case the designation may be accompanied by the indication whether that territory is either for manufacture or sale or both (73). Appropriate listings may also be made of the countries falling within each category, subject, however, to an agreed adjustment in the event of future political changes (74).

5. *Exclusivity and Non-Exclusivity of the Territory*

165. The question whether the prospective licensee or technology recipient is to be authorized to undertake on an exclusive basis either the act of manufacture and use or of sale or of both in a given territory is one which is not free from difficulty.

166. The licensor or technology supplier may prefer to retain the power to license industrial property rights and to transfer the know-how to more than one licensee or technology recipient or also to exercise those rights and use that know-how himself within a given country (75) (76). On the other hand, the potential licensee or technology recipient may wish to secure his position in that given country as well as in other countries, particularly those in a neighboring region, against possible

(72) See note (46), *supra*.

(73) See notes (76), (77), (78) and (79), *infra*.

(74) See note (46), *supra*.

(75) *Rights Granted*

The Licensor hereby grants to the Licensee, and the latter hereby accepts, subject to all of the terms and conditions of this License and subject to requirements of existing laws in the Territory where the [Product is made, used or sold] [Process is applied]: . . . (see notes (76), (77), (78) and (79), *infra*).

(76) *Exclusivity and Non-Exclusivity, Example 1*

a non-exclusive, non-transferable and indivisible license for the duration of this License to [manufacture the Product] [Apply the Process] in (country of the Licensee) and to sell or otherwise dispose of the Product so made in the said country and in other countries of the world except (name of the country or countries).

competition either by his licensor or technology supplier or by other potential licensees or technology recipients (77) (78) (79) (80). The demand for exclusivity by the potential licensee or technology recipient is likely to be reinforced whenever the exploitation of the invention or the industrial design or the use of the trademark or the application of the know-how requires significant capital outlays. At the same time, it may not always be in the interest of the licensor or technology supplier to accord that exclusivity without proper safeguards against the failure of the licensee or technology recipient to exploit the technology (81) (82).

167. In arriving at an agreement on the question whether the particular acts of manufacture and use or of sale are to be undertaken on an exclusive basis in one or more territories the commercial and investment implications of this decision will weigh heavily. The parties to the technology transfer transaction will also have to take into account, however, the legal situation in the given territory or territories, in particular, the contractual latitude permitted to the parties in light of the legal controls of the governments concerned, both as concerns the industrial property rights and the know-how in question.

168. As regards industrial property rights, the grant of a patent, or the legal protection accorded in the case of an industrial design or a trademark as a consequence of registration or otherwise, confers the exclusive right to exploit the invention or the industrial design or to use the trademark throughout the jurisdiction of the government authority that issues the patent or accords the legal protection for the industrial design or the trademark.

169. The owner of the exclusive right may wish, however, to authorize another to exploit the invention or the industrial design only in designated factories or in specified areas within the said jurisdiction. That desire may also be accompanied by an intention to confine the use of the product manufactured as a result of the exploitation of the invention or the industrial design to such factories or specified areas and, further, to limit the sale of that product, with or without an accompanying trademark, to specified areas within that jurisdiction, or to only that jurisdiction and thus exclude other territories.

170. In light of the production capacities of most developing countries, however, it is doubtful whether such a division of the territory of a developing country would be practical. Nor, for the same reason, is a division among developing countries likely to be practical and, indeed, it may not be legally possible, if such countries form a single trade or economic unit, such as a free-trade area, a customs union or common market.

171. Where such a division is nevertheless sought, the parties must reckon with the industrial property laws, on the one hand, and laws governing restrictive business practices and the transfer of technology, on the other.

(77) *Exclusivity and Non-Exclusivity, Example 2*

an exclusive license for the duration of this License to make, have made, use or sell the Product in (specified country or countries in the Exclusive Territory) and to use or sell the Product in the other countries of the Exclusive Territory.

(78) *Exclusivity and Non-Exclusivity, Example 3*

an exclusive license to make and sell the Product during the first (specified number) years at least in the Exclusive Territory and a non-exclusive license to sell the Product in the Non-Exclusive Territory for the duration of this License.

(79) *Exclusivity and Non-Exclusivity, Example 4*

After the expiration of the period of (specified number) years, if the Licensee is not exploiting the market as provided for in Article ... (see note (97), *infra*) and the Licensor serves a notice in writing to that effect specifying the ground of its dissatisfaction and the Licensee fails promptly to effect a remedy, the exclusive license to make and sell shall cease to be exclusive to the extent that the Licensor shall be entitled to appoint not more than (specified number) other licensees.

(80) See also note (87), *infra*.

(81) See note (79), *supra*.

(82) See also Section E.3., paragraphs 212 to 215 and notes (98) and (264), *infra*.

172. The industrial property legislation in a given country may permit the owner of the exclusive right to confine exploitation of the invention or the industrial design or the use of the trademark to a specified part of the country. In that event, the owner of the exclusive right of exploitation or use may also desire to limit the disposition of the product (e.g., the use or the sale) manufactured as a result of the exploitation or use, or which bears the owner's trademark, to that specified part of the country.

173. In such a case, however, in certain countries, laws governing restrictive business practices or the transfer of technology may have application. The owner's attempt to introduce in his dealings with a potential licensee or technology recipient a limitation as to the exploitation or use or as to the disposition of the product within a specified part of that country's jurisdiction may be denied effect under such laws. Such effect may be denied, in particular, if that limitation forms part of a pattern of conduct between the owner of the exclusive right and his potential licensee or technology recipient or between the owner of the exclusive right and other persons to divide the market relevant to the product, especially where, as competitors, they possess as a group substantial, if not dominant market power.

174. Where the parties to the technology transfer transaction seek to delineate their activities in an area or areas beyond that of the jurisdiction of the government authority which has issued the patent or accords legal protection for the industrial design or the trademark in question, the legal situation is not only that jurisdiction but also in the area or areas in question beyond that jurisdiction must be considered.

175. As regards the legal situation in the jurisdiction where the patent has been granted or where legal protection is accorded for the industrial design or the trademark in question, the rights of the owner and of the potential licensee or technology recipient are necessarily limited territorially to that jurisdiction. Therefore, the parties' attempt to delineate their activities in areas beyond that jurisdiction will not normally be governed by the industrial property legislation in force in that jurisdiction. Apart from the reach of laws in that jurisdiction governing restrictive business practices or the transfer of technology, the legal position of the parties will then depend upon the industrial property laws and the laws governing restrictive business practices or the transfer of technology which prevail in the area or areas beyond that jurisdiction.

176. Thus, if a licensee manufactures in one country (country A) a product under a license from the owner of the patent granted in that country and wishes to export that product to another country (country B) where the licensor owns a corresponding patent, the import of that product into country B might, under the laws in country B, be regarded as an infringement of the patent rights of the licensor in country B or of his licensee in that country (see also Section L.5, paragraphs 375 to 387). Under these circumstances, from the point of view of the licensor, it would not seem to be necessary that a provision prohibiting such exports from country A to country B be included in the license or agreement. If such a provision were to be included, it might be regarded as in the nature of a "no contest clause" as regards the patent granted in country B and denied effect for that reason (see Section E: Points Concerning Patents, paragraphs 201 and 202).

177. If there is no corresponding industrial property right held by the licensor in country B, he cannot, under the industrial property laws in that country, exercise control of the exploitation of the invention or the industrial design or the use of the trademark in country B. Nevertheless, he may wish to do so, or to at least control the export to country B of products manufactured in country A, through contractual arrangements with the licensee or technology recipient in country A.

178. For instance, it may happen that the licensor, before he entered into dealings with his potential licensee in country A, has given a right to some other licensee (in country C) to manufacture in country C, it being contemplated that the licensee in country C would eventually export to country B. Further, it may be that at the time of the dealings between the licensor and his potential licensee in country A, the licensee in country C is exporting to country B or desires to do so. As a consequence, in the course of their dealings, the licensor and his potential licensee in country A may arrive at an understanding as concerns the export of products by the licensee from country A to country B.

179. Under these circumstances, the question arises whether effect will be given under the law in country A to a provision in the license or agreement between the licensor and his licensee who manufactures in country A that sales of the product shall take place only in country A, i.e., that the product will not be exported to country B.

180. In this context, attention is drawn to the industrial property laws in some countries, under which a compulsory license may be granted by the authorities in a case where, owing to the refusal of the owner of a patent to grant a license on reasonable terms, an export market for the patented product is not being supplied. Such laws may reflect a policy that a restriction on export, though regarded as a condition arising essentially out of the existence of the patent, may nevertheless be unreasonable in certain circumstances. Thus, if such a law prevailed in country A, the parties' attempt to limit the export of the product manufactured by the licensee may not be given effect, particularly if a showing were subsequently made that the market in country B for the product was not being met by the licensee in country C for whose benefit the restriction on the licensee in country A was designed.

181. Furthermore, in some other countries, the laws governing restrictive business practices or the transfer of technology state that any provision purporting to control the activities of the licensee or technology recipient in an area, beyond its jurisdiction, where corresponding industrial property rights in favor of the licensor or technology supplier do not exist will not be given effect.

182. Accordingly, under these laws as so stated, effect may not be given in such countries, for example country A, to a provision in the license or the agreement which places restriction on the licensee who manufactures in country A as to the licensee's exports to country B, if the licensor does not have industrial property rights in country B corresponding to those in country A. Effect may also be denied under those laws to such a provision even in the case where the licensor has previously given a license to a licensee in country C for export to country B.

183. Moreover, attention is drawn to the fact that in some countries the laws governing restrictive business practices, and possibly also laws governing the transfer of technology, may deny effect in such countries to provisions in a license or agreement or to practices which purport to restrict the import into that country of products manufactured elsewhere. Thus, where the licensor and the licensee conclude a license or agreement with a provision that the product manufactured in country A shall not be exported to country B, the licensor's attempt to invoke that provision in country B, as for instance in the courts of that country, may not be given legal effect under such law.

184. In view of the foregoing circumstances, it may be advisable for the licensee not to accept a provision in the license which purports to limit the export of the product by the licensee from the country of the licensee or to limit its import by the licensee into another country or into other countries. In addition, to avoid any doubt as to the intention of the parties which may arise from the absence of provisions on the import or export of the product, it would be advisable for the license to contain a provision bearing on this subject. That provision could state that, without prejudice to the rights of the licensee which may inure under the laws of the country of exportation or under the laws of the country or countries of importation, the licensor recognizes that the licensee may export the product from a given country to another country or to other countries and that the licensor will not bring suit for infringement based on corresponding industrial property rights in the country of importation or otherwise contest the import by the licensee into another country of the product (83). In drafting such an immunity from suit provision, care should be exercised by the licensee to ensure that this commitment extends not only to suit by the licensor but also to suit by other licensees of the licensor. If the licensor is reluctant to give such an extended commitment it may suggest that the licensor has made engagements with other licensees which should be disclosed by the licensor in as much as they may affect the scope of the activities planned by the licensee.

(83) *Export of the product to other countries; immunity from suit for infringement of corresponding patents: obligation not to contest importation of the product*

The Licensor acknowledges that it holds under the laws of (specified country or countries) patents corresponding to the Patent(s) that is (are) the subject of this License. As to the said country (countries), the Licensor recognizes that the Licensee may wish to export the Product to the said country (countries) and agrees that neither the Licensor nor any person holding rights from the Licensor will bring suit for infringement against the Licensee on the basis of such corresponding patents or to contest the importation by the Licensee into the said country (countries) of the Product manufactured by the Licensee outside the said country (countries).

185. The foregoing remarks have been made in the context of an explanation of the scope of the licensing of industrial property rights, specifically, the exclusive rights conferred by the patent or by the legal protection accorded to an industrial design or a trademark. As regards attempts to include in know-how agreements provisions delineating the territory within which the know-how may be applied or within which the product resulting from its application may be used or sold, industrial property laws normally will not be applicable. The supplier of know-how may be able to rely in many jurisdictions on laws of contract, laws relating to employer-employee relations, laws relating to trade secrets or the wrongful disclosure of secret and confidential information, and laws concerning unfair competition, which may be effective to control the use, communication, and disclosure of know-how—in so far as such acts are within the jurisdictional reach of those laws—but, as regards the control of the product resulting from the application of that know-how, his recourse may be ineffective. In any event, the control of know-how and of the product resulting from its application will most likely be subject to the laws governing restrictive business practices or the transfer of technology. Their scope has been indicated previously when describing the elements of those laws and their application to provisions delineating territory in a license of industrial property rights. Provisions in know-how agreements delineating territory are likely to be given comparable effect under those laws.

6. *Acquisition or Use of Competing Technology*

186. The licensor or technology supplier is usually interested in measures which will maximize the return on the technology which has been supplied by him to the licensee or technology recipient. It is usually to the advantage of the licensor or technology supplier if the licensee or technology recipient uses in the manufacture of the product or in the process applied for its manufacture the technology supplied by the licensor or technology supplier to the exclusion of a competing technology. This is because the price of the technology supplied is often (and, under the laws in some countries governing the transfer of technology, must be) calculated in terms of royalties based on the net selling price of the product, but only if that product embodies the technology of the licensor or technology supplier (see Section N, paragraphs 420 to 424). To the extent that the licensee or technology recipient uses other technology in the manufacture of the product or in the process applied for its manufacture, then the return to the licensor or technology supplier is accordingly diminished.

187. The licensor or the technology supplier may insist on the inclusion in the license or the agreement of a provision that the licensee or technology recipient will not use a competing technology. Such a provision may be accompanied by other provisions having a similar effect, as for example provisions that the licensee or technology recipient will manufacture or sell a minimum amount of the product embodying the technology of the licensor or technology supplier or pay a minimum price to the licensor or technology supplier as regards a specified amount of production with royalties to be paid on net sales over and above that amount. In itself, however, a provision not to use competing technology may be intended as a safeguard measure against the disclosure of know-how or technical information (see Section G.3, paragraphs 255 to 283) or as a means of ensuring that the agreed standard of quality for the product (see Section J.3, 4, 5, paragraphs 335 to 344) will be attained.

188. Provisions or practices precluding the licensee or technology recipient from acquiring or using competing technology are usually invalid under the laws in some countries governing restrictive business practices and such provisions are a basis for withholding approval of the license or the agreement under the laws in some countries governing the transfer of technology.

189. Care must be exercised, however, in characterizing provisions governing the disclosure of technical information as provisions precluding the acquisition or use of competing technology. In a license or agreement concluded between A and B, B may agree not to disclose or communicate certain technical information to others (see Section G: Know-How, paragraphs 255 to 283), and Section T: Duration, paragraphs 593 to 598). If B subsequently (or even beforehand) enters into an agreement of cooperation with C, a potential or actual competitor of A, then the provision not to disclose the technical information can be viewed from C's standpoint as a provision or practice precluding C from acquiring or using competing technology. Yet such provisions not to disclose technical information, which are designed to prevent leakage of know-how to a competitor, should be regarded as valid both under laws governing restrictive business practices and laws governing the transfer of technology.

E. SPECIAL ASPECTS CONCERNING PATENTS

(Refusal of the application for a patent or invalidation of a patent granted: grounds for refusal or invalidation, warranties by the Licensor, "no-contest" clause, suspension, continuance, reduction or reimbursement of royalties, modification or termination of the license; maintenance in force of the patent; working of the patented invention)

1. *Refusal or Invalidation of the Patent*

190. Where an invention which is the subject of an application for a patent or which has been patented forms a basis of a license or a technology transfer agreement, if the application is subsequently refused or the grant of a patent is later declared null and void, the legal effect on the parties must be reckoned with.

191. Refusal of an application for a patent occurs when the industrial property administration with which the application is filed declines to grant the patent because the application fails to conform to the requirements of the patent law.

192. The case of invalidation of the patent presupposes that the patent has been already granted to the patentee when the license is concluded. Since under the patent system there is a risk that patents will be granted which do not satisfy the requirements of the law, the possibility exists of the subsequent annulment of such patents.

193. As there are many possible grounds for refusing the application for a patent or for attacking the validity of the patent, the question that arises therefrom is how the licensee or the technology recipient may satisfy himself on these points before entering into the licensing relationship or, after doing so, before paying, or after he has paid significant sums of money for rights or technology based on the use of the invention which is the subject of the application or the patent.

194. One solution is to avoid concluding the license or the technology transfer agreement if the patent has not been granted or if the application for the grant of the patent has not been published or laid open for inspection and the statutory period or a reasonable time has not elapsed during which opposition to the grant could have been made. The disadvantages of such a solution are that the exploitation of the technology in question will be delayed and that the competitive positions of the prospective licensor or technology supplier and the potential licensee or technology recipient in respect of third persons may be adversely affected.

195. In this connection, attention is drawn to the laws in at least one country governing the transfer of technology. It should be noted that under the laws in that country, an application for the grant of a patent may be the subject of a license only after publication of the application and the appropriate request for examination; if the patent is not granted or expires (or if a trademark is not registered or if registration expires) in accordance with the terms of the industrial property law, the registration of the license ceases to be valid. Further, under the laws in that country, if proceedings to cancel or invalidate the patent (or the registration of the trademark) are instituted, the registration of the license is suspended.

196. Where the law permits the parties even before the grant of the patent to enter into a licensing relationship or to conclude a technology transfer agreement under which the licensor or technology supplier undertakes to grant a license on certain patent rights and the licensee or technology recipient agrees to pay a specified remuneration, the fact that they do so necessarily implies (apart from cases of disputes concerning rights which are resolved by the grant of reciprocal licenses) that the parties presuppose the validity of the patent rights which are the subject of the license or the agreement or are willing to take the risk of a refusal of the application for the patent or the risk of its invalidation subsequent to the grant.

197. The licensee or technology recipient may nevertheless seek from the licensor or technology supplier certain warranties as to the rights in the invention. In view of the fact that the patent systems of the various countries differ as to the legal requirements for the grant of a patent and that the technical fields of patent coverage are so vast, making it difficult and expensive, for example, to search the vast

volume of material which may bear on the requirement of novelty, a licensor or technology supplier usually refuses to give a blanket warranty (84).

198. The licensor or technology supplier may, however, be willing to give a limited warranty, as for instance a warranty that it is the owner of the patent and has the right to grant licenses (85), or to warrant certain other matters either as to the patent or the application for the patent, such as that the invention has not been published in the patent documents of a specified country or countries as of a certain point in time (this may be risky, unless a very careful search has been made), or that the invention has not been publicly used by the licensor or technology supplier or by anyone under its control, or that the licensor or technology supplier is the inventor or is otherwise entitled to a patent for the invention and that no acts have been done to impair the right to the grant of the patent, or that the patent or rights relating thereto have not been assigned or encumbered (86), or that no other licenses have been or will be granted with respect to the patent (87).

199. Even these warranties do not include the most usually cited grounds for refusing an application or for attacking a patent, such as prior publication in countries other than those specified, or prior public knowledge or use, obviousness, or lack of inventive step.

200. One of the underlying legal problems relates to whether the licensee or the technology recipient may terminate the license or the agreement in question. Another problem is whether the licensee or technology recipient has the right to recover royalties paid as from the date of the decision of a court that the patent is invalid or from the date of the grant of the patent, or, in the case of the refusal of the application for the patent, from the date of its refusal. If such a right is recognized, the question arises as to the extent of such reimbursement particularly when, for a period prior to the refusal or the invalidation, the licensee or technology recipient has profited from the use of the invention (e.g., by making sales of the product manufactured utilizing the invention), or has received technical information, or has otherwise benefited by his protected situation or by his holding under the license or the agreement of rights in the invention. Another problem is whether the licensee or technology recipient may continue to use the technical information and know-how already supplied and receive in the future that or different technology (see, in particular, Section T.4.b, paragraphs 593 to 598).

201. Closely related to the matter of what warranties will be given by the licensor or technology supplier as to the validity of the licensed patent and the effect to be given when such warranties fail is that of what assurances the licensor or technology supplier may seek from the licensee or technology recipient as concerns the latter's willingness not to contest the validity of the licensed patent and to take appropriate steps when a third person threatens to or does infringe the patent (88). Not uncommonly, the licensor or technology supplier may be willing to give some warranty as to the validity of the licensed patent, if, in turn, the licensee or technology recipient will not contest the patent rights granted by the licensor (i.e., the "no-contest clause"), and, in addition, will either bring an action to prevent infringement of the patent or defend or assist in the defense of the patent in nullity proceedings instituted by third persons for its invalidation (i.e., "the defense or patent obligation").

(84) *Warranty by Licensor against Infringement*

The Licensor warrants that, to the best of the Licensor's knowledge, the [Product to be manufactured] [Process to be applied] under this Agreement does not infringe [any] [specified country] patents in force on the date of the execution of this Agreement.

(85) See notes (14), (15) and (16), *supra*.

(86) *Warranty as to Patent or Patent Applications*

The Licensor warrants, as to the [applications for the] patents listed in Schedule No. . . . that:

- (i) the invention has not, to its knowledge, been published or used except experimentally prior to the date of the (specified country) application and is fully described in the said patent application of which particulars are given in Schedule No. . . . ;
- (ii) [the Licensor is the true and first inventor of the invention] [there are no lawful grounds of objection to the grant of the patents to the Licensor so far as it is aware];

(iii) the Licensor has not, nor to its knowledge has any other person, done or omitted any act whereby the right to obtain the patents and the conditions or circumstances affecting the validity of the grant of any patents is or will be impaired;

(iv) the Licensor has not prior to the date of this License assigned or charged or agreed to assign or charge the said patent [applications] or any rights relating thereto or relating to the invention that is the subject-matter of such patent [applications].

(87) *Warranty as to no Subsisting and Further Licenses*

The Licensor warrants that other than the license granted on (date) to (persons specified) there are no subsisting licenses under the Patents in respect of (specified country), that no further licenses will be granted to any other person in respect of (specified territory), and that no commitments have been made to grant any additional licenses, in respect of the said territories.

(88) See note (89), *infra*.

202. The legal effect of the absence of a provision that the licensor or technology supplier warrants the validity of the patent is uncertain. In addition, there are divergent legal views as to the enforceability of a "no contest clause", particularly if concluded at a time when the parties knew or had reason to believe that the grant of the patent might be invalidated. Further, the law is in a doubtful state as to whether, and the extent to which, the licensee or technology recipient may recover royalties paid in the event of the refusal to grant the patent or of its invalidation.

203. Since the legal principles on these matters are unsettled in many developing countries, prudence requires that the parties provide in the license or agreement for the measures to be taken during its term in the event that the grant of a patent is refused by government authorities or that proceedings are instituted by third persons with a view to precluding the grant of a patent or having the patent granted declared invalid.

204. Among the measures to be weighed are:

- (i) the possibility for the licensee or technology recipient, at the expense of the licensor or technology supplier, to institute proceedings against, or to defend proceedings brought by, third persons concerning the grant or the validity of the patent, particularly if they take place in the country of the licensee or technology recipient or to call upon the licensor or technology supplier to institute or defend such proceedings, particularly if they take place elsewhere (89);
- (ii) the suspension (90) or the continuance of royalty payments at the stated percentage, or their payment at a reduced percentage (91), during the period of the legal proceedings attacking the validity of the patent, with possibly also all or a proportion of the payments being used as a contribution towards the costs of those proceedings;
- (iii) in the event of the refusal to grant the patent or of the invalidation of the patent, if a reduction in royalty payments is to be allowed, the percentage or amount and as of what date should be indicated or stated as to be agreed upon between the parties (92) (93);
- (iv) in the event of the refusal to grant the patent or of the invalidation of the patent, the specification of the maximum, if any, of the amount in damages to be paid by the licensor or technology

(89) *Infringement: Notice and Defense*

(a) The Licensee shall promptly advise the Licensor in writing of any notice or claim of infringement and of the commencement of any suit or action for infringement of any patent against the Licensee which is based upon the use of any invention that is the subject of the Patent(s) or of any patent of an Improvement granted to the Licensor and which is used by the Licensee under the authority and in accordance with the terms of this Agreement.

(b) The Licensor shall, upon receipt of such notice and if promptly requested in writing so to do, undertake at the Licensor's own expense the defense of any such suit or action. The Licensor shall have sole charge and direction of the defense of any such suit or action and the Licensee shall have the right to be represented therein by advisory counsel of its own selection at its own expense. The Licensee agrees to cooperate fully in the defense of any such suit or action and to furnish all evidence in its control.

(c) In the event the Licensee undertakes its own defense of any such suit or action against it, the Licensor shall nevertheless bear the expenses of, and fully cooperate in, such defense and shall have the right to be represented therein by advisory counsel of its own selection and at its own expense.

(d) Neither the Licensor nor the Licensee shall settle or compromise any such suit or action without the consent of the other if the settlement or compromise obliges the other to make any payment or part with any property or assume any obligation or grant any license or other rights or be subject to any injunction by reason of such settlement or compromise.

(e) The Licensor will release, acquit and discharge the Licensee from any and all claims or liabilities for infringement or alleged infringement of the Patents prior to the date of validation by the Government Authorities of (country of the Licensee) of this Agreement.

(90) See note (261), *infra*.

(91) *Reduction in Royalties on Account of Competition from Infringer*

Payment of royalties as from the commencement of any such infringement shall continue so long as the Licensee is able to sell the Products without reduction in price. In the event that reductions in price are necessary to meet the competition of the infringer and a significant reduction in volume of sales occurs, royalty payments shall be reduced to an extent commensurate with the adjustments necessary on account of said infringement, and in the event of a failure to agree on what is fair and reasonable the matter shall be referred to an independent expert appointed by agreement between the parties, or failing agreement the matter shall be deemed a dispute within the meaning of Article... (see note (310), *infra*) of this Agreement.

(92) *Reduction in Royalties on Account of Infringement of Patent Rights*

If the Licensee or any of its sub-licensees is required, after consultation with the Licensor, to pay royalties to a third person (persons) on the Product for the reason that the Licensee's activities under this Agreement infringe the said third person's (persons') patent rights, the royalties payable from the Licensee to the Licensor shall be reduced by the amount of the royalties payable to the said third person (persons).

(93) See also note (257), *infra*.

supplier (94) and of the necessity or non-necessity to reimburse payments made by the licensee or technology recipient; if reimbursement of payments is provided for, an indication whether royalties paid on sales of the product should be reimbursed as to all amounts, or up to or beyond a specified amount, paid during a certain period prior to a specified date (e.g. the date of the final decision annulling the patent);

- (v) modification of the license or the agreement, in so far as the provisions relating to the patent refused or invalidated, upon terms and conditions to be agreed upon, including the possible continuation of the use of the technical information or know-how and the substitution of technology different from that reflected in the refused or invalidated patent (95).
- (vi) termination of the patent license or of the obligations of the technology transfer agreement in so far as they relate to the invention which was the subject of the application for a patent or for which a patent granted had been annulled (96).

205. Similar problems arise and somewhat comparable measures can be taken in the case of the refusal to register an industrial design or a trademark or in the event of the invalidation of its registration.

206. Attention is drawn to the laws in some countries governing the transfer of technology under which the registration of the license or agreement will cease to be valid if the application for a patent (or for the registration of a trademark) is not granted or the registration of the license is suspended if proceedings are instituted to cancel or invalidate the patent (or trademark) rights, or which provide that the licensor may not prevent the licensee from contesting, whether administratively or through judicial proceedings, the industrial property rights claimed or obtained in the country by the licensor, or which provide that the license or agreement may not exempt the licensor or technology supplier from liability in the case of actions by third persons for faults or defects in the technology or for infringement of industrial property rights.

2. Maintenance in Force of the Patent

207. The legislation of most countries requires the payment of annual fees for maintaining a patent in force. The amounts of the fees are usually progressive, in the sense that the closer the patent gets to the end of its duration, the higher the annual fees become. This system is based on the assumption that patents kept in force for a longer time are usually of higher economic value to their owners and thus enable them to carry a heavier load in fees. In addition, under a system of progressive fees, the owner is more likely to keep in force only patents which are of some economic value to him and allow the remainder to lapse, thus removing a hindrance to others in the interest of freedom of industry and commerce.

(94) Infringement: Indemnity by the Licensor

(a) In the event that the Licensee shall have requested the Licensor to undertake the defense of any such patent infringement suit or action as referred to in Article . . . (see note (89), *supra*), the Licensor will hold it free and harmless from any damages or other sums that may be assessed in or become payable under any final decree or final judgement by any court in said suit or action instituted against the Licensee to the extent said decree or judgement is based upon the infringing use by the Licensee hereunder, during the term of this Agreement, of any invention that is the subject of the Patent(s) or of any patent of an Improvement made or acquired by the Licensor and which was used by the Licensee under the authority and in accordance with the terms of this Agreement, or resulting from, or arising in connection with, the manufacture, sale or use of any tool, machinery, equipment, material or process furnished by the Licensor and employed by the Licensee hereunder, or from the performance of any work hereunder, if notified, in detail, promptly in writing of such claim or suit [and given authority to defend the same].

(b) The Licensor shall not be liable for any such infringement in any instance where the particular tool, machinery, equipment, material or process which is the subject of the claim or

suit was specified by the Licensee. In such event, the Licensee shall indemnify the Licensor and hold it harmless in the same manner and subject to the same provisions as the Licensor is required to defend the Licensee hereunder unless the Licensor, having been consulted by the Licensee, did not advise the Licensee against such specification or the Licensor though not consulted, had a reasonable opportunity to advise the Licensee on such specification and failed to do so.

(95) Infringement: Option to Eliminate

In the event of any notice or claim of infringement as referred to in Article . . . (see note (89), *supra*), or in the event that the Licensor shall become obligated to make any payment to the Licensee pursuant to Article . . . (see note (94) *supra*), the Licensor shall have the right, at its sole option, to eliminate the alleged or adjudicated infringement by, at the Licensor's own expense, (a) procuring for the Licensee an appropriate license or (b) making such changes in the Licensed Plant, subject to suit, as the Licensor shall deem desirable to avoid such infringement; provided, however, that such changes shall not impair the operation of the Licensed Plant.

(96) See note (254), *infra*.

208. The maintenance in force of patents will be in the interest of both parties to a license or agreement, but the degree of their interest will not always be the same. The higher the economic value of the patent, or to the extent that its economic value increases, the greater the interest of the patentee-licensor and, in the case of an exclusive license, the greater the interest also of the licensee in maintaining the patent in force. However, it is not always easy to determine the economic value of a given patent, particularly where the manufacture of the product or the application of the process concerned depends upon the exploitation by the licensee of inventions covered by a number of patents, some of which may even be held by different patentees. Consequently, differences of opinion may arise between the licensor and the licensee as to the necessity to maintain any given patent in force.

209. One approach to resolving this problem is to provide in the license or agreement that the patentee-licensor shall pay the necessary renewal fees for the patents in question but in the event that he believes that a given patent does not justify the expense of maintenance, the licensee will be so informed and will be given the opportunity to take an assignment of the patent, normally for a nominal consideration (97).

210. Somewhat similar problems arise and comparable approaches can be taken in the case of trademarks which receive protection under a registration system.

211. It should be noted that under the laws in at least one country governing the transfer of technology, the patent (or trademark) license may not contain a provision placing on the licensee the liability and responsibility, including financial responsibility, for maintaining the patent (or trademark) granted in the country.

3. *Working of the Patented Invention*

212. The exploitation of an invention or an industrial design, the use of know-how and the use of a trademark are the *raison d'être* of the industrial property license or technology transfer agreement. The licensor or technology supplier expects that the licensee or technology recipient will fully exploit the rights granted and the technology supplied for the duration of the license or the agreement in as much as it is normally the case that the remuneration to be received by the licensor or technology supplier will be generally proportional to the extent of that exploitation and use. Further, in the case of an industrial property license, the exploitation of the patented invention or the industrial design or the use of the trademark may even be a condition of the continued recognition of these industrial property rights of the owner; they may be subject to at least the grant of a compulsory license if not other sanctions imposed by the law of industrial property.

213. The parties may thus wish to specify that the licensee or technology recipient will exploit the patented invention or the industrial design or will use the know-how or trademark in question (98) and to determine the measures to be taken in the event that exploitation or use does not meet the limits set by the parties.

214. Among the measures which can be adopted if the licensee or technology recipient fails to satisfactorily exploit the market in a competitive manner are the power in the licensor to terminate the license

(97) *Maintenance of Patents*

(a) The Licensor will pay any renewal fees necessary for the maintenance of the Patents and will on receiving prior written notice produce at its offices to the Licensee or its representative the renewal receipts for inspection.

(b) Notwithstanding the foregoing the Licensor shall not be obliged to maintain any patents which in its opinion do not justify the expense of maintenance. Before allowing any patent to lapse the Licensor will give to the Licensee at least one month's prior notice of its intention to allow any patent to lapse and will (if the whole of the rights in such patent are exclusive to the Licensee) offer to the Licensee an assignment thereof for a nominal consideration, the expense of the transfer thereof to be at the expense of the Licensee. Where the patent rights are divided out amongst more than one person the Licensee shall be entitled to a part share or other joint right therein equally with other non-exclusive licensees.

(98) *Manufacture and Sale of the Product*

The Licensee shall begin the manufacture of the Product within (stated period) after the delivery of the Technical Information and shall exert its best efforts during the term of this Agreement to create, supply and service in the Exclusive Territory [as extensive a market for the Product as possible] [a market for the Product which shall reach sales of at least (specified number of units of the Product or specified amount of revenue)].

or the agreement (99), or the privilege in the licensor or technology supplier, after the lapse of a specified period, to license another person or to communicate the technical information to other manufacturers in the exclusive territory (100).

215. It should be noted that under the laws in certain countries governing the transfer of technology, a patent or trademark license must establish that it is compulsory for the licensee to actually exploit the patented invention, or to use the registered trademark or publicity slogan, which is the subject of the license.

F. TECHNOLOGICAL ADVANCES: IMPROVEMENTS AND DEVELOPMENTS WITHIN THE SCOPE OF THE LICENSE OR THE AGREEMENT

(Concept of technological advances and definition of improvement and development; availability to the other party of improvements and developments made by one party; factors, terms and conditions; mutual exchange of information on a non-remunerative basis; sharing of remuneration received from third persons to whom the technological advance is made available; rights to improvements and disclosure of developments and remuneration particularly in the case of technological advances made by other licensees and associates of the licensor or technology supplier or by the licensee or technology recipient; cross-licensing and dominant position; technological advance as an improvement or development or as new technology; research and development)

1. *In General*

216. Once the basic technology (whether reflected in the form of inventions, industrial designs or know-how) (see Section D.1, paragraphs 133 to 142) is identified and described, and even during the process of that identification and description, the parties can turn their attention to the problem of whether technological advances subsequently made or acquired by one or both of the parties should come within the scope of the industrial property license or the technology transfer agreement and, if so, under what terms and conditions, including the availability of the technological advances for the benefit of one or the other or both of the parties or of third persons, on a reciprocal basis or non-reciprocal basis, for what duration, for which territories, for what additional price, if any, and further, what steps should be followed to secure its legal protection.

2. *The Concept of a Technological Advance and the Definition of Improvement and Development*

217. In resolving the questions referred to in the preceding paragraph, what constitutes a technological advance will be one matter of paramount importance for the parties to understand and define in the industrial property license or technology transfer agreement.

218. A technological advance may be characterized as a step in the evolution of the technology beyond that state of the technology identified and described as existing at a certain point in time or made or acquired during a specified period. Further, the technological advance of concern to the parties will normally be one which significantly or substantially affects, for example, in the case of a given product, the volume of its production, the cost of its manufacture or the efficiency of its use, or, in the case of a given process, the material conditions under which that process is to be applied, or the cost of its application, or the efficiency of its application. What constitutes a technology advance is therefore usually a function not only of time but also of its effectiveness or economic efficiency in relation to a specified product or process.

219. For the purpose of this Guide, the word "improvement" is used to denote that technological advance which is reflected in an invention or industrial design that is the subject of a patent or of an application for the grant of a patent (exclusive of the patents and patent applications that reflect the basic technology concerning a given product or process) and the word "development" is used to denote, as concerns a given product or process, that technological advance which is not reflected in an invention

(99) See note (264), *infra*.

(100) See note (79), *supra*.

or industrial design that is the subject of such a patent or patent application. The parties may wish to define in the industrial property license or the technology transfer agreement these two terms in the sense in which they are used in this Guide (101) (102).

3. *Factors in, and Terms and Conditions of, the Availability of Improvements and Developments*

220. Apart from the matter of what constitutes a technological advance, the following other factors, among others, will play an important role in resolving the questions referred to in paragraph 216 above: the non-availability of the original technology to other persons, the research capacities of the respective parties and of others with access to the original technology, the extent of technological dependence of one party upon the other, the probability that a given technological dependence will result from the access by one party to the basic technology or to the improvements, the technical information or other know-how subsequently supplied by the other party, the nature or the level of the advance as a technological breakthrough, the willingness of the technology transferor and the technology transferee, as well as third persons in relationship with either, to exchange information on technological advances, whether the technological advance has reached the stage where its industrial application is realizable, and the degree of confidence each party places in the willingness of the other to exploit, for their mutual benefit, the technological advance.

221. Various approaches can be taken by parties to provide information about and to define their respective rights in the improvements and developments which either may have made or acquired.

222. The parties may decide that the mutual exchange of information on improvements and developments (103), is in their best interests, and that each shall be free to exploit, on a non-remunerative basis, the technological advance of the other (104), but that if either makes available that advance to third persons for a remuneration then the other shall be entitled to share in that remuneration in some agreed manner and amount (105). Such a solution usually provides further that the party making the technological advance should apply for patent protection and that in the event it does not elect to do so, the other party may apply, in the name of either, and at the expense of the party applying. This approach is likely to be adopted when it is expected that the technological advances will be forthcoming from each party in substantially the same if not in equivalent degree or the parties have approximately the same research and development capacity.

223. Departing from the foregoing solution of mutuality and reciprocity are a number of other approaches whereby different terms and conditions are sought before rights to the improvements will be conferred or the developments disclosed, with a distinction also drawn if the technological advance is made by the licensor or supplier of the basic technology rather than by the licensee or technology recipient. In these approaches, much depends on their relative research and development capacities, and if it is the licensee or technology recipient who is in a weaker position, his need for access to the

(101) *Improvement*

"Improvement" means any technological advance which is not reflected in an invention or industrial design that is the subject of the Patent(s) but which is patentable or is the subject of a patent granted or of an application for the grant of a patent and which would, if exploited, [reduce the cost of the manufacture of the Product [by at least (specified) per cent]] [increase the sales of the Product [by at least (specified) per cent]] [reduce the cost of the application of the Process [by at least (specified) per cent]] [increase the output of the application of the Process [by at least (specified) per cent]].

(102) *Development*

"Development" means any technological advance which is related to the Product or the Process and which is not an Improvement that is the subject of a patent or of an application for the grant of a patent, as well as any technological advance which is not reflected in the Technical Information.

(103) *Improvements and Developments by Either Party*

(a) Each Party shall promptly inform the other of any Improvements and Developments which it may own, possess or

control or be aware of and provide all available details thereof sufficient to enable the recipient Party to use and practice the same.

(b) Any Party notifying the other of any matter in paragraph (a) above may at the time designate the same as potentially patentable, whereupon the recipient Party shall keep the same confidential and do all such things as will ensure that letters patent applied for shall not be void for prior publication, prior use or otherwise. [Should the notifying Party desire that any such patentable matter shall not be patented, he shall have the right to veto any application for the grant of a patent on such patentable matter and the recipient Party shall respect such veto.]

(104) See paragraph (d) of note (106) and paragraph (d) of note (108), *infra*.

(105) See notes (241), (242), (243), (244) and (245), *infra*.

technological advances of the licensor or technology supplier will be greater. In such a situation the licensee or technology recipient has much to gain by participating in arrangements for the pooling of information on technological advances made or acquired as among the licensor or technology supplier and third persons in relationship with the licensor or technology supplier, including other licensees and technology recipients and their associates.

224. The ability of the licensee or technology recipient to compensate the licensor or technology supplier for access to the technological advances of the latter by disclosing to him the improvements and developments of the licensee or technology recipient or giving rights thereto is likely to be less. Consequently, that access may have to be paid for as such, at a price to be agreed on, or taken into consideration when fixing the price of the basic technology. In addition, the duration for which that access will be accorded will be a factor in establishing the price, as will the desire of the licensor or technology supplier to maximize the return by strengthening the market position of the licensee or technology recipient against competitors by providing to the licensee or technology recipient access to technological advances. At the same time, care must be taken to avoid an undue period of technological dependence by the licensee or technology recipient on the licensor or technology supplier as that is not in the interest of a developing country which wishes to promote the creation of indigenous technological capacity and development.

225. In this context, the parties may wish to consider limiting the period during which there will be a reciprocal or conditional flow of information on improvements and developments, e.g., by providing for such a flow during the entire period of a short term license or agreement or during a period of three or five years or other period substantially less than the duration of the license or the agreement but with a requirement that the terms and conditions under which that flow is to continue thereafter, with or without additional payment, will be the subject of renegotiation at the option of one or both of the parties.

226. If it is the technological advance of the licensor or supplier of the basic technology which is in question, he may be willing to inform the licensee or technology recipient of the fact that a technological advance has been made or acquired by the licensor or technology supplier; however, he may not be willing to disclose that fact at the time of making or acquisition, but only after the completion of laboratory tests, or after the application for the patent is published, or when the industrial application of the technological advance is regarded by the licensor or technology supplier as commercially realizable, or only after successful production tests have taken place (106). Yet it will be in the interest of the licensee or technology recipient to press the licensor or technology supplier to agree to an early disclosure date, as for example when laboratory tests have been completed and before the licensor or technology supplier applies for the grant of a patent. Further, the licensor or technology supplier may be willing to confer rights in the improvement upon, or to disclose the development to the licensee or technology recipient free of charge or, if not, against remuneration, and he may specially insist on the latter if the licensee or technology recipient desires to have as well the power to pass the benefit of the technological advance to third persons. A provision in the license or agreement covering these elements might also extend to improvements or developments made or acquired by associates or by other licensees of the licensor or technology supplier (107). However, in such a case, it is not uncommon for

(106) *Improvements and Developments by the Licensor*

(a) The Licensor shall furnish to the Licensee, [without any delay and free of charge,] as soon as [laboratory tests are completed and before the Licensor applies for the grant of a patent], [the application for the patent is published] [their industrial application is commercially realizable], all information on Improvements or Developments made or acquired by the Licensor [during the term of this Agreement] [during a period of (stated) years].

(b) As the Licensor may have the right to apply for the grant of patents on such Improvements the Licensor agrees to make reasonable efforts to obtain such protection in the Exclusive and Non-Exclusive Territories.

(c) In the event the Licensor elects, with respect to such Improvements, not to apply for a patent or patents in the said Territories, the Licensee shall have the right, with the prior consent of the Licensor in writing to apply for a patent or

patents in the Licensor's or Licensee's own name and at the Licensee's own expense.

(d) It is agreed that during the term of this Agreement the Licensee shall have the right to use such patent or patents and free of charge in the Exclusive Territory and non-exclusively, but subject to payment, in the Non-Exclusive Territories.

(107) *Future Rights*

It is understood and agreed that in so far as the Licensor may hereafter own, or may hereafter acquire license rights under, letters patent with claims covering the Product, and as to which rights the Licensor has the right to grant sub-licenses, the Licensor shall extend to the Licensee the same rights under such patents in respect of manufacture, use or sale of the Product, in so far as the Licensee may desire and request such license or sub-license, and in so far as the Licensor is able to do so, as are extended to the Licensee under this License in respect of the Patents.

the licensor or technology supplier to require that the licensee or technology recipient share in some defined way in the remuneration demanded by that associate or other licensee.

227. The potential licensee or technology recipient should resist attempts by the prospective licensor or technology supplier to increase the price of the basic technology by an amount which is intended to remunerate it for the expected worth of an anticipated flow of information or improvements and developments or grant of rights thereto in as much as that flow or that grant may not in fact materialize because of the absence of the technological advance. It would be preferable to regard the licensor or technology supplier as adequately remunerated for the flow of any information and the grant of any rights by the increase in production and sales of the product, upon which royalties will normally depend resulting from the exploitation of the technological advance. If the technological advance does not result in an increase in such production or sales but nevertheless brings about a reduction in the costs of manufacture or in the marketing expenses, a provision could be included in the license or the agreement to the effect that in such a case negotiations will take place with the view to arriving at a lump sum payment or to modifying the royalty rate. If the prospective licensor or technology supplier cannot accept this approach, then the potential licensee or technology recipient should seek to include in the license or agreement a provision for the disclosure of the technological advance made or acquired by the licensor or technology supplier and for the grant of rights thereto against payments to be agreed upon at the time of such disclosure or the grant of such rights.

228. If it is the technological advance of the licensee or recipient of the basic technology which is in question, the licensor or supplier of that technology, recognizing that he is dealing with a potential competitor, may seek the agreement of his licensee or technology recipient that the rights in the technological advance be granted to, or deemed the property of, the licensor or technology supplier, or that he will have an option to acquire such rights, or sometimes merely that he will have a royalty-free license thereunder with the right to grant sub-licenses. Under these circumstances, the most that the licensee or technology recipient should agree to is to inform the licensor or technology supplier of the fact that a technological change has taken place and to insist on remuneration for any rights in the improvement or for the disclosure of the development (108). Even this type of agreement may not be possible for licensees or technology recipients in those developing countries where research and development activities in the technological field in question are undertaken by government institutions whose results may not necessarily be available to the licensee or technology recipient for transmission to other persons, at least not without the consent of the governmental authorities concerned.

229. If, in the preceding situation, the views of the licensor or supplier of the basic technology prevail, and a similar practice with other licensees or technology recipients is being pursued, a complex cross-licensing scheme may be in the making with a view to putting the licensor or technology supplier in a dominant position and to lessening competition.

230. It should be pointed out, however, that the licensor or supplier of the basic technology is not the only person in a position to attempt to dominate the market; a powerful licensee or technology recipient taking a license from, or concluding an agreement with, an individual or small enterprise and refusing to confer rights in improvements upon or disclose developments to his licensor or technology supplier might make an important technological advance and refuse to grant licenses or other rights in that advance to anyone else, and this in turn might lead to a position of domination.

(108) *Improvements and Developments by the Licensee*

(a) The Licensee agrees to inform the Licensor of the fact of, and, subject to payment, to furnish to the Licensor, as soon as [laboratory tests are completed and before the Licensee applies for the grant of a patent] [the application for the patent is published] [their industrial application is commercially realizable], all information on Improvements and Developments made or acquired by the Licensee [during the term of this Agreement] [for a period of (stated) years].

(b) As the Licensee may have the right to apply for the grant of patents on Improvements, the Licensee agrees to make reasonable efforts to obtain such protection in the Exclusive and Non-Exclusive Territory.

(c) In the event the Licensee elects, with respect to such Improvements not to apply for a patent or patents in the said Territories the Licensor shall have the right, with the prior consent of the Licensee in writing, to apply for a patent or patents in the Licensor's or the Licensee's own name and at the Licensor's own expense.

(d) It is agreed that during the term of this Agreement the Licensor shall have the right to use such patent or patents non-exclusively, subject to payment to be agreed upon, in the non-exclusive Territories but shall not have the right to use such patent or patents issued or registered in the Exclusive Territory.

231. Whatever the proposed solution, each in light of the circumstances must be scrutinized against prescriptions of the laws in some countries governing restrictive business practices and the transfer of technology. In this connection, special attention may have to be given to provisions which deny to the licensee or recipient of the basic technology access to the improvements or developments of his licensor or technology supplier, or which stipulate that the technological advance is available but only against payment, or which require the licensee or technology recipient to grant, whether free of charge or for consideration, to the licensor or technology supplier, access to the improvements or developments made by the former.

4. *New Technology*

232. A difficulty may arise when the technological advance by one party is such that if incorporated into the product or the process which is the subject of the license or the agreement it substantially alters that product or process.

233. This situation poses the question whether the technological advance is to be regarded as an improvement upon the invention or the industrial design or a development in the know-how, and thus subject to the provisions on improvements and developments, or whether the advance is to be regarded as new technology and not within the scope of the license or the agreement and thus subject to separate arrangements to be agreed on (109) (110) (111). Any attempt to fix a dividing line between improvements and developments, on the one hand, and new technology, on the other, assumes that these concepts can be defined, or that at least certain distinguishing criteria can be agreed to.

234. One possible solution is to require the consent of the licensor or technology supplier to the incorporation of technological advances, made or acquired by the licensee or technology recipient, which substantially alter the basic technology, especially where the right to use the trademark of the former on the product is granted. Where such consent is required, it may be advisable to provide as well that any dispute as to whether or not the technological advance is an improvement or development or substantially alters the basic technology should be referred to an expert for his views (see Section V: Settlement of Disputes, paragraphs 636 and 637). The parties may wish also to determine, by provisions in the license or the agreement, questions similar to those raised concerning improvements and developments, namely, the communication by one party to the other of such technological advance or new technology, the rights to be granted to and the remuneration to be received by the innovator, and the availability of that advance or new technology to third persons, as well as the question whether the existing license agreement may be modified or terminated by the licensee or technology recipient if the advance or the technology has not been made or acquired by, or is not available to, the licensor or technology supplier.

(109) *New Field of Use*

Each of the Parties undertakes to inform the other in good faith and without reservation of any uses not envisaged by him at the time when this [License] [Agreement] was made which subsequently appear to him practicable or which he proposes to put into effect.

(110) *New Products*

(a) The Licensor agrees to keep the Licensee informed as to any New Products of the Licensor which the Licensor is willing to consider licensing and which the Licensor believes will hold real promise for commercial success in the Exclusive and Non-Exclusive Territories. In respect of any such New Products the Licensor will discuss licensing arrangements with the Licensee, such arrangements to be on an arm's length basis and any licenses granted to be on a non-exclusive basis.

(b) The Licensee agrees to keep the Licensor informed as to any New Products the Licensee develops which the Licensee believes will hold real promise for commercial success. In respect of any such New Products, the Licensee may discuss

licensing arrangements with the Licensor, such arrangements to be on an arm's length basis and any licenses granted to be on a non-exclusive basis.

(111) *Substantial Technological Advances: New Technology*

If, after the expiration of the period of (stated time) from the effective date of this Agreement, either Party informs the other that a technological advance has occurred which substantially alters the basic technology or that new technology exists which enables the [Product to be manufactured] [Process to be applied] in a substantially different manner or with a substantially different effect, the Parties shall enter into negotiations with a view to modifying the terms of this Agreement or to concluding a new agreement in its place. If the said technological advance or the said new technology has been made or acquired by, or is available to, the Licensor, the said negotiations shall extend to the terms and conditions upon which the said technological advance or the said new technology will be made available to the Licensee; otherwise, this Agreement may be terminated by the Licensee in the manner provided in Article . . . (see note (254). *infra*).

5. *Research and Development*

235. Technological advances, whether they be improvements to existing inventions or industrial designs, developments in know-how or new inventions, presuppose investment in research and development. Licensors and technology suppliers are often in a position to carry out extensive research and development activities and may even offer a variety of research and development services to the licensee or technology recipient as part of the technology transfer transaction (see Section H.7, paragraphs 315 to 317).

236. Should the relationship between licensor or technology supplier and the licensee or technology recipient also take the form of cooperation in research and development, with certain activities being undertaken by the latter, the question arises in whose name and in which countries the application for the grant of a patent for an invention should be filed. One solution is to permit one or the other of the parties to take out the patent and oblige that party to grant a license free of charge or against payment depending on the respective contributions to the inventive activity which each has made. Another solution is to provide that a joint patent shall be taken out. In these cases, the parties may also wish to regulate the situation where one or the other may wish to confer the benefit of that research and development on third persons (see Section F, paragraphs 222, 226, 228 and 234; Section G, paragraph 272; Section Q, paragraphs 540 to 544, below).

237. It should be noted that, under the laws in certain countries governing the transfer of technology, approval will not be given to industrial property licenses or technology transfer agreements that contain provisions which limit research and development by the licensee or technology recipient or which may have adverse effects on national technological research and development.

G. KNOW-HOW; TECHNICAL INFORMATION

(Disclosure of information and expertise as a requirement of patentability or of industrial design protection or as part of the terms of the industrial property license or technology transfer agreement; legal means for preventing the communication, disclosure or use of valuable information and expertise; legal recognition and safeguard measures concerning disclosure of know-how: disclosure during preliminary negotiations, disclosure provisions in industrial property licenses and technology transfer agreements; guarantee of know-how)

1. *Disclosure of Information and Expertise as a Requirement of Patentability or of Industrial Design Protection; Supply of Technical Information Under the Industrial Property License or the Technology Transfer Agreement*

238. Under the standard requirements of most patent laws, the description of the invention must be sufficiently clear and complete to permit others skilled in the art to carry out the invention. Some laws go further, and require also that the best mode contemplated by the inventor for carrying out the invention be set forth; but these laws do not extend to requiring the disclosure of the best—the most economic, simplest, fastest—way, which frequently presupposes the use of information and expertise acquired through long experimentation.

239. In many instances the potential licensee or technology recipient may not have in his employ personnel who are sufficiently skilled in the relevant art. The expertise of the prospective licensor or technology supplier in training the necessary personnel would be needed.

240. Further, even if such skilled workers were available, many problems must be faced before manufacture can take place. Expertise would most likely be required in working out and giving effect to the plans for, and determining the costs of, the factory and its layout, the installation of appropriate machines and the drawing up of lists of component parts and maintenance schedules, preparing flow charts and devising assembly routines, conducting test procedures, scheduling production and controlling the quality of the manufactured product, its packaging and eventually its sales promotion and channels of distribution.

241. These are matters which, according to the prevailing patent law and practice, need not be disclosed even under the “person skilled in the art” test or to meet a requirement to state the “best way of carrying out the invention”.

242. In addition, what should not be overlooked is that it may not be possible to reflect the information or expertise in question in the description of the invention or industrial design which, as the basic technology, is to be protected, or in the technological advance for which patent or industrial design protection is later sought.

243. Thus, in some instances, the conditions of patentability of an invention or the requirements of industrial design protection under the applicable law cannot be met. For example, whereas a formula might be patentable, methods of production based on personal skill are not inherently patentable; nor is the putting together and applying in a particular way of principles—commonly known to the profession of business management—of production, expenditure, and fixing responsibility for their control. Similarly, elements in a certain combination may be covered by an existing patent held by another, or may have become well known for certain purposes, but the proportion of these elements going to make up a composition, the additional elements deemed necessary to produce an article of commercial value, and the adaptation of the combination for the manufacture of a product, may be matters not known to others, yet in their combination they may not be patentable.

244. In some instances, it may happen that the information and expertise which are essential to the most efficient carrying out of the invention on a large commercial or industrial scale are not divulged in the description of the invention, not because there is no requirement to do so, but because it is, in some cases, too cumbersome to put in the description, as, for example, when the details of a process vary greatly with the local conditions under which it operates, or when dimensions, lists of materials, assembly routines, test procedures, maintenance schedules and the like are involved.

245. More frequently, the information or expertise is not divulged because it is not known at the time of putting the description together as part of the documentation to be submitted to obtain patent or industrial design protection. The description is often based on research work carried out under laboratory or small-scale conditions. Commercial production or even production on a pilot scale may not come until a later stage, and it may then be too late to be incorporated in the description of the invention when the application for the grant of a patent is filed. Further, as to whether the invention will be cost-competitive or not, this may not be known at the time of filing, for commercial costing may not be determinable until commercial production commences.

246. Moreover, it is worth noting that to ensure a useful flow of technology a continuous dialogue between the parties is necessary whereby information and expertise developed by either (or by third persons in relation to one or the other) subsequent to the basic technology can be incorporated at the least additional cost. Much of this information and expertise, some of which by its very nature may be a technological advance in the known manufacture, is developed subsequently by the licensor or supplier of the basic technology (or by third persons in relation to the licensor or technology supplier, e.g., other licensees or technology recipients) and could not therefore have been reflected in the descriptions of the patented inventions covering the basic technology; yet it will be needed by the licensee or technology recipient if his cost-competitive position is to be maintained. Other information and expertise may be developed by the licensee or technology recipient on the basis of its experience in exploiting the basic technology or through its own research and development activities.

247. For the foregoing reasons, it becomes indispensable that potential licensees or technology recipients in developing countries insist on the inclusion in the industrial property license or the technology transfer agreement of a provision obligating the prospective licensor or technology supplier to supply at least the technical information or technical know-how needed to work the invention or apply the industrial design or otherwise exploit the basic technology (112) (113) (114), if not, also, information on improvements and developments along the lines indicated previously (see Section F, paragraphs 216 to 231).

(112) *Supply of Know-How; Technical Information*

(a) Forthwith on the Effective Date of this Agreement the Transferor shall, to the extent that he has not already done so, supply to the Transferee the [Know-How] [Technical Information].

(b) The Transferee hereby acknowledges that the Technical Information already supplied or shown by the Transferor to the employees or agents of the Transferee prior to the said date shall be deemed to have been furnished under this Agreement.

(113) *Drawings*

(a) The Transferor shall supply the Transferee with sufficient copies of each relevant Drawing.

(b) The Transferor hereby grants to the Transferee so far as it is necessary a license to reproduce in three-dimensional form the Drawings and other such printed and photographic matter for the term and for the purposes of this Agreement.

(114) See note (137), *infra*.

248. At the same time, pending a decision and the initiation of the requisite steps to secure, if possible, patent or industrial design protection, the communication of technical information and expertise without appropriate safeguards to prevent their unauthorized use by and disclosure to third persons—competitors of not only the licensor or technology supplier but also of the licensee or technology recipient—is hazardous. It is therefore incumbent upon the parties to take steps to fix their legal status and to adopt safeguard measures concerning their disclosure as indicated in a subsequent subsection (see paragraphs 255 to 283).

249. Attention is drawn to the laws in certain countries governing the transfer of technology which require that all the technical information necessary for the exploitation of the licensed patent or linked to the technology transferred must be supplied by the licensor or technology supplier.

2. *Legal Means for Preventing Communication, Disclosure or Use of Valuable Information and Expertise*

250. An individual or enterprise may acquire in the course of the exercise of professional or business activities valuable information and expertise concerning the use and application of industrial techniques which that individual or enterprise does not wish to be communicated to, or disclosed or used by, others except at a price.

251. Yet because of breaches of confidence on the part of its employees or former employees or the acquisition of information by third persons by theft or dishonest means, such communication, disclosure or use may result.

252. The existing state of the law affords that individual or enterprise certain, but limited, means for preventing the communication, disclosure or use of the valuable information and expertise which have been acquired through investment in research and development. These legal means are available under the laws concerned with industrial property, copyright, employer-employee relations, trade secrets or unfair competition and through giving legal effect to contractual undertakings in industrial property licenses and technology transfer agreements.

253. The individual or enterprise that has such information or expertise may disclose that information or describe that expertise in a publication and as the author claim copyright in the published work. If the requirements of the law applicable to copyright are met, the reproduction or distribution of the publication without the author's consent may be prevented, but that law does not afford the legal means for preventing others from using or applying the information contained or the expertise described in the publication.

254. If the information and expertise have not been previously published or made available to the public, the applicable industrial property laws may afford a certain measure of protection. Such information and expertise might be reflected in the description of an invention which meets the requirements of the applicable law on patents. Further, such information and expertise might be embodied in an industrial design (which in some countries is protected under the laws on industrial property and in others by copyright). The rights conferred by the patent or by the protected industrial design would enable the individual or the enterprise concerned to preclude other persons from doing certain acts in connection with the said invention or industrial design, including, for instance, in the case of an invention, the manufacture of the product or the application of the process, in respect of which the patent was granted, in the manner disclosed by the information and by the expertise outlined in the description of the invention.

3. *Disclosure of Know-How*

255. Apart from the protection which may be afforded by the laws on industrial property and copyright, as outlined above, it is possible that, in certain situations, an individual or enterprise that has information and expertise concerning the use and application of industrial techniques, not published or made available to the public ("undisclosed know-how"), may be able, under the laws concerning employer-employee relations, trade secrets or unfair competition, to prevent employees from communicating it, without permission, or a competitor who has acquired it in an unauthorized manner from disclosing or using it.

256. Whether the individual or enterprise is able to do so or not will depend on judicial attitudes and turn on such diverse factors as the extent of common knowledge in the industry, the familiarity of the parties with the information or expertise involved, the amount of money, time and effort expended, the precautions taken to avoid disclosure, the question whether it could have been obtained lawfully without too much trouble, the relationship of confidence between the parties and the implications of good faith, and the novelty and originality of the concept.

257. The general absence of special legislation in national laws to which the transfer or communication, use and disclosure of know-how are subject, and where such legislation exists, its diversity, as well as the absence of specific provisions on know-how in international treaties on the protection of intellectual creations or activity, compounds, on the international level, the problems faced by a licensor or technology supplier of one country in his dealings with potential or existing licensees or technology recipients in other countries.

258. Nevertheless, the risks inherent in the supply of know-how can to a certain degree be minimized through safeguard measures specified as part of the terms and conditions of an industrial property license or technology transfer agreement or adopted in the course of the preliminary negotiations.

259. *Disclosure during preliminary negotiations.* In addition to the nature, scope and duration of the rights to be granted and the technology to be supplied, the preliminary negotiations are also generally concerned with the problem of disclosure of know-how.

260. The potential licensee or technology recipient should be given sufficient information to evaluate the technology and its profitability. On the other hand, the holder of the technology will wish to avoid giving to the potential licensee or technology recipient particulars which because of their intrinsic nature cannot be recovered or the disclosure or communication of which cannot be limited in the event that the negotiations break down.

261. One solution the parties can adopt during the preliminary negotiations is not to give information on the elements but only to describe the results obtained.

262. Another solution is for the holder of the technology to disclose the information on the elements if an agreement is concluded beforehand pursuant to which the potential licensee or technology recipient undertakes not to communicate, use or disclose know-how obtained during the preliminary negotiations. The agreement may also confer an option upon the licensee or technology recipient to acquire the technology (see paragraph 88). A preliminary disclosure agreement may also be concluded, individually or jointly, with selected employees of the prospective licensee or technology recipient. The agreement may call for an initial evaluation of the information by one selected individual of suitable standing in the hierarchy of the prospective licensee or technology recipient. The "initial evaluator" then advises on the basis of the information received whether or not there is an interest in the technology, and, if there is not, he agrees not to disclose the information received; if there is an interest, the potential licensee or technology recipient agrees not to use the information, and it, as well as the initial evaluator, agrees to restrict its disclosure, until an agreement is executed establishing the terms and conditions for its use and the acquisition of the technology.

263. The preliminary disclosure agreement may also contain provisions precluding disclosure to third persons of any correlation or identity which may exist between the technical information supplied by the licensor or technology supplier and other technical information made available to the potential licensee or technology recipient by third persons, especially possible competitors of the former (115).

264. Such preliminary disclosure agreements raise a number of problems, not the least of which is, in the event of breach, the enforceability of a provision for payment of a fixed sum, or, in the absence of such a provision, the valuation of damages (see Section S: Default; Changed Conditions; Waiver, Remedies, paragraph 571).

265. Another solution is for the licensor or the technology supplier to require of the prospective licensee or technology recipient a deposit that serves as security for the agreement not to use or disclose the information in question. On the successful conclusion of the industrial property license or technolo-

(115) See note (116), paragraph (v), *infra*.

gy transfer agreement, the deposit is deducted from the remuneration for the technology to be paid by the licensee or technology recipient (see Section N.3, paragraph 454). If no license or agreement is concluded, the deposit might be retained by the licensor or technology supplier or refunded, after some delay, in whole or in part. This arrangement presupposes that the amount asked for the deposit has been large enough to constitute adequate security yet has not been so much as to deter altogether the potential licensee or technology recipient from entering into negotiations, and that he has enough faith in his licensor or technology supplier to agree that the deposit be held by him rather than by a third person, who could act as a stakeholder and make decisions as to whether the terms and conditions of the agreement not to disclose have been complied with.

266. *Disclosure provisions in licenses or agreements.* Turning to the terms and conditions of the industrial property license or the technology transfer agreement itself, the parties may wish to define which portions of the know-how, whether developed by the one or the other, and at what times, should not be disclosed, for what purposes, as against which persons, for what duration, and with what effect if an unauthorized communication, disclosure or use should occur, accidentally or otherwise, or if the license or the agreement is terminated.

267. In identifying the know-how which should not be disclosed, either of two approaches is possible: to specify the particular know-how or to specify that all know-how will not be disclosed, with certain exceptions (116). These exceptions are sometimes those which, by law, are usually regarded as beyond the scope of protection in any event, namely, that portion which is published by the transferor or a third person (117) or becomes part of the public domain (118), or which is in the possession of one party at the time of receipt of the know-how and was not acquired from the other, or which originates from third persons as a matter of right (119).

268. The identification of the know-how which is not to be disclosed should extend as well to a determination of whether the know-how not to be disclosed is not only that which constitutes part of the basic technology but also that which may be developed subsequently, by either or both of the parties. In this context, the principles of mutuality and reciprocity, which play an important role in the provisions of the license or agreement as concerns improvements and developments in the basic technology (see Section F, paragraphs 216 to 231), must also be considered in working out the terms and conditions concerning non-disclosure.

(116) *Disclosure, Communication and Use of Technical Information*

The Transferee shall, subject to the provisions of Articles ... (see notes (117), (119), (120) to (126), (131) and (134), *infra*):

- (i) not disclose or communicate the Technical Information of the Transferor which has been or may hereafter be made available to the Transferee directly or indirectly under this Agreement [and which, at the time it is made available to the Transferee, is specified by the Transferor and the Transferee as not to be disclosed or communicated to others];
- (ii) use its best efforts to prevent duplication or disclosure of any such Technical Information except to such third persons as may be specifically approved by the Transferor in writing as authorized to receive the same [and then only to the extent necessary in the selection of a contractor and for the design, installation, operation and maintenance of the Plant] and who, to the satisfaction of the Transferor, shall have agreed not to disclose the same;
- (iii) limit access to such Technical Information to those of its employees as may reasonably require the same for use under this Agreement;
- (iv) not use any of such Technical Information for any purpose other than [for the manufacture of the Product] [for the application of the process] [for the design, installation, operation and maintenance of the Plant];
- (v) not make or cause to be made known to any third person any correlation or identity which may exist between, on the one hand, Technical Information supplied by the

Transferor pursuant to this Agreement and, on the other hand, any other technical information now or hereafter made available by third persons.

(117) *Matters Known to the Public*

The obligation under Article ... (see note (116), *supra*) shall cease on the publication by the Transferor or any third person of information comprising or being part of the Technical Information to the extent of such publication [or of the agreement by both Parties that such information or part thereof is, or has become, a part of the public domain].

(118) See note (117), *supra* and note (119), *infra*.

(119) *Disclosure by the Transferee of Technical Information in the Transferee's Possession or Available from Third Persons*

Nothing contained herein shall in any way restrict or impair the Transferee's right to use, disclose or otherwise deal with any Technical Information received, directly or indirectly, from the Transferor which,

- (i) at the time of its receipt is, or which thereafter becomes, part of the public domain by publication or otherwise; or
- (ii) the Transferee can show was in its possession at the time of receipt and was not acquired, directly or indirectly, from the Transferor; or
- (iii) is independently made available to the Transferee, after the time of receipt from the Transferor, by a third person as a matter of right and which did not originate with the Transferor.

269. Initially it may be thought that measures to safeguard against the disclosure of the know-how supplied by the licensor or technology supplier should be applied only by the licensee or technology recipient. Nevertheless, it may be in the interest of the latter, as soon as he is capable of exploiting the know-how forming part of the basic technology and particularly when he has been granted exclusive rights, that the former should also apply the safeguard measures to the know-how and to subsequent developments in it (120). Moreover, whenever the license or the agreement involves similar reciprocal commitments—exchange of information on, and rights in, improvements and developments—the licensee or technology recipient may find it in his interest to require that the safeguard measures be applied by the licensor or supplier of the basic technology to the know-how developed by the licensee or technology recipient (121). Thus, the license or agreement may lay down expressly that the safeguard measures apply to that know-how initially or subsequently received and whether by one or the other of the parties.

270. The parties may also wish to identify the person or persons to whom the know-how may be communicated or who may use it, as for instance specified employees (122) (123), or third persons such as subsidiaries, affiliates or associates of either and approved research institutions (124), government regulatory bodies (125), sub-contractors (126) and sub-licensees of the licensee or technology recipient, or other licensees or technology recipients of the licensor or technology supplier (127), particularly if such third persons are not otherwise covered by more general provisions permitting the extension to third persons of the benefits of the license or agreement and requiring, in that event, the application by such persons of its burdens (128).

271. As concerns employees in particular, the safeguard measures may extend to injunctions against the publication or disclosure by the employee of information regarding the technology, or against his permitting access by others to that information or against his utilizing or disclosing such information if he takes employment with competitors of his employer, whether during the period of his employment or also for a stated period following the termination of his engagement. Similar safeguard measures can be included in the arrangements made by either party with third persons.

272. As concerns third persons, however, the reciprocal communication between the parties to a license or agreement of developments in know-how can cause particular difficulties for them with respect to the non-disclosure of know-how, especially where one or both happen to be connected with

(120) *Disclosure by the Transferor to Other Manufacturers and Other Third Persons*

The Transferor shall not, during a period of (specified duration) from the effective date of this Agreement, disclose or communicate any Technical Information [or other Know-How] of the Transferor to any other manufacturer in the territory of the Transferee or disclose or communicate any Technical Information [or other Know-How] of the Transferee to any third person without the consent of the Transferee.

(121) See note (120), *supra*.

(122) *Disclosure of Technical Information by Transferee's Employees*

The Transferee shall cause its present and future employees to give suitable undertakings to the same effect as those specified in Articles ... (see note (116), *supra*, and notes (133) and (134), *infra*).

(123) *Disclosure of Information Acquired by Transferor's Personnel of Transferee's Operations*

Persons sent by the Transferor to the Plant of the Transferee to assist the Transferee shall not disclose any Technical Information relating to the Transferee's method of manufacture coming to their knowledge and the Transferee may require such persons to enter into a written obligation not to disclose such information.

(124) *Disclosure to Subsidiaries, Affiliates or Associates and Approved Research Institutions*

Either Party may disclose or communicate any Technical Information, made available to it by the other, subject to the

agreement of the other and against payment, to its Subsidiaries, Affiliates, Associates or Research Institutions, provided that such an entity gives suitable undertakings to the same effect as those specified in Articles ... (see note (116), *supra*, and notes (133) and (134), *infra*).

(125) *Disclosure to Government Regulatory Bodies*

Either Party may disclose or communicate any Technical Information, made available to it by the other, to any Government regulatory body for the purpose of fulfilling the requirement of the applicable law concerning the approval or registration of this Agreement or of the [Product] [Process].

(126) *Disclosure to Promote Sale or to Sub-Contractors*

The Transferee may communicate a limited part of the Technical Information to the extent that it is bona fide necessary for promoting the sale and use of the Product and provided it is no more than is necessary in the circumstances; or, where the Transferee proposes to use subcontractors for assistance in the manufacture of the Product, it may, provided that a written undertaking against non-disclosure is obtained, disclose necessary technical information relating to the Product.

(127) See note (120), *supra*.

(128) See notes (241) to (245), *infra*.

other enterprises in a way which requires the communication to such enterprises of know-how in related fields. Thus, a development in a particular item of know-how may be applied, as it stands, or with slight modification, to a related item of know-how; consequently, the obligation on the party to whom such a development is communicated not to disclose it conflicts with the party's commitment, *vis-à-vis* a contracting partner enterprise with respect to a related item of know-how, to communicate all developments to that partner. One way to deal with this case is for the license or agreement between the parties to provide—usually where exclusive rights are concerned—that one or the other may not conclude arrangements with third persons for the transfer of know-how in the same or related fields (129) or, if either does so, to ensure by an appropriate provision in the arrangements that the safeguard measures are applied by such third persons (130).

273. Among the kinds of safeguard measures which the parties may devise (apart from those inherent in the specification of the type of know-how which will not be disclosed and in the identification of the persons who may communicate, disclose or use the know-how or to whom it may be communicated or disclosed) are such controls, particularly for tangible information, as prescribing a classification for the know-how according to the degree of disclosure, designating the eligible personnel that are allowed to handle it and the chief responsible person, specifying the location and vessel of storage, restricting or prohibiting the production of duplicate copies, recording the particulars at each manipulation of information, and describing the safety measures to be taken in case of emergency.

274. When it comes to the control of intangible know-how, there are few safeguard measures which can be reflected in the contractual arrangements between the parties to a license or agreement or with third persons. The possibility of concluding agreements with key personnel has already been referred to (see paragraph 262). Otherwise, the controls lie outside the consensual framework and include such measures as preventing or minimizing the exodus of personnel by offering job security and other personnel incentives and preparing contingency plans when key personnel are lost, or objectifying know-how to the possible maximum (i.e., making it tangible in form) and holding the know-how in the form of patents and protected industrial designs where practicable.

275. The parties to a license or agreement should not overlook the examination of the question of the duration for which the know-how in question should not be disclosed and should state, if possible, the period of that duration. The difficulties in arriving at a defined period must not be underestimated, however.

276. First of all, the duration for which know-how should not be disclosed is one which is not necessarily related to the term of the patent rights or other rights conferred by the license or to a specified performance (such as the provision of technical services and assistance or the payment of royalties) required by the license or the agreement.

277. In the average case, most, and in some cases all, of the know-how is given over to the licensee or technology recipient on signing or in the early stages of the relationship between the parties. The life expectancy of straight know-how is estimated by experts as about five years, with some putting it at three years and few, if any, giving it more than ten years. In exceptional situations, and especially with more sophisticated know-how, there may be a longer life expectancy.

278. On the other hand, where there is a continuous flow of know-how the period may be even more difficult to state but is likely to correspond to the nature of the know-how and to the duration of the license or agreement in which the commitment to supply the know-how is set forth.

279. In the case where the period of non-disclosure of the know-how is stated to correspond to the term of the rights granted by the license or to the duration of the license in which the commitment to supply know-how is laid down or for a specified period ending prior thereto (131), consideration should

(129) See note (87), *supra*.

(130) See notes (241) to (245), *infra*.

(131) *Duration of Non-Disclosure of Technical Information*

The Licensee shall, for the duration of the license of any of the Patents or of any patent of improvement granted under

Article . . . (see notes (103), (106) and (107), *supra*), [or for a (specified) period, whichever ends earlier, not disclose or communicate, except as provided in Articles . . . (see notes (120) to (128)), the Technical Information referred to in Article . . . (see note (116), *supra*) that is required for [the manufacture of the Product] [the application of the Process] [and any Improvement] in respect of which such license is granted.

be given to whether the commitment not to disclose technical information related to the product or process technology that is the subject of the patent license should continue for a further stated time in the event that the license is terminated by the licensor for reasons for which the licensee is responsible (132), or rights are annulled, or the license is terminated by the licensee before the expiration of its stated term (133). Further, in the case where know-how is to be supplied on a continuous basis, consideration should be given also to whether the commitment not to disclose should not continue until the expiration of a stated period from the date of the last delivery of technical information (134).

280. Finally, the parties may wish to define the consequences when one or more of the safeguard measures has not been fulfilled, whether accidentally or otherwise, or when the term of the license or agreement expires or comes to an end before its stated expiration because of the fault of one or the other of the parties, and especially when it does so while the period of non-disclosure continues.

281. Thus the consequences of a disclosure of certain know-how might be specified in regard to the commitment not to disclose other know-how, to the payments made or to be made for the know-how which was disclosed (e.g., discharge, reduction, or reimbursement), to the continued working of the invention or use of the industrial design or to the general obligation (if specified) to exploit the know-how, and also to the modification, or even to the termination (135), of the license or agreement.

282. It may happen that the stated term of the license or the agreement is not co-extensive with the specified period of the commitment not to disclose the know-how. Yet the license or agreement may be terminated by one party before the expiration of the stated term because of circumstances beyond the control of either or because of the fault of the other (as, for example, the failure of the licensee or technology recipient to make payments or of the licensor or technology supplier to supply know-how or fulfill a guarantee), and that power may be exercised while the period of non-disclosure is still operative. In those events, the parties may wish to specify in the license or the agreement whether the commitment not to disclose nevertheless continues to apply (136).

283. Attention is drawn to the laws of certain countries whereby for purposes of national security specified technical information may not be divulged by persons subject to the scope of the law to unauthorized persons inside, and to others outside, the country in question, or to anyone in specified countries. A licensor or other supplier of technical information falling within the terms of such laws may wish to seek from his licensee or technology recipient assurances by a provision in the license or the agreement or in a separate document that such laws will be complied with.

4. *Guarantee of Know-How*

284. The question that arises is what commitments by the technology supplier and what expectations by the technology recipient as to the adequacy and suitability of the technology to be supplied should be written into the technology transfer agreement in the light of the process to be applied or the product to be manufactured or other purpose to be achieved by the parties.

285. With respect to the adequacy or the suitability of the technology, a number of approaches are possible. The guarantee provision of the technology transfer agreement may be phrased in terms of the conformity of the technology supplied to the agreed description of the given technology, or in terms of

(132) See note (264), *infra*, and Section T.4: Effect of Expiration or Termination, paragraphs 593 to 598.

(133) See note (254), *infra*, and Section T.4: Effect of Expiration or Termination, paragraphs 593 to 598.

(134) *Duration of Non-Disclosure of Technical Information*

The Transferee shall not disclose or communicate, except as provided in Articles . . . (see notes (120) to (128), *supra*), any Technical Information referred to in Article . . . (see note (116), *supra*), until the expiration of a (specified) period after the last delivery of such Technical Information, or until the expiration of the term of this Agreement, whichever is later.

(135) See note (264), *infra*, and paragraph 588.

(136) See note (279), *infra*, and paragraph 598.

the results to be attained by the use of a given technology, or in terms of the suitability of the given technology to meet the technological requirements of the technology recipient (137).

286. Where the guarantee is one of description (138), it is a matter of comparing the technology actually supplied with the technology agreed to be supplied as set forth in the agreement (or in the appendix, annex or schedule thereto) and ascertaining its correctness and completeness. This form of guarantee is particularly useful in the case of written technical information, the contents of which can be listed or otherwise spelled out in some detailed manner.

287. On the other hand, a guarantee of results goes further and provides either that the technology will be adequate to manufacture a particular product, or that the use of the technology in the application of a given process will result in the manufacture of that particular product. The guarantee provision may then specify the technical parameters of the result to be achieved: quality standards of the product, quantities to be produced, minimum or normal performance, particular dimensions, permitted tolerances (139), safety and environmental characteristics and standards (140), the latter being established by reference to the laws applicable in the territory either of the technology supplier or of the technology recipient or of both. These technical parameters are normally spelled out in detail in an appendix, annex or schedule to the agreement.

288. In the case of the guarantee of results, the requirements for bringing the guarantee into play are usually also listed in detail. These may include the utilization of certain methods, specifications, raw materials, semi-finished products or components, the choice and siting of any relevant equipment or other plant layout and assembly features, the standards or workmanship, relevant external factors, such as temperature and humidity, as well as other conditions (141). Here, again, the details are usually given in an appendix, annex or schedule attached to the agreement. It should be noted, however, that the

(137) *Guarantees by Transferor*

Subject to the terms and conditions hereinafter set forth, the Transferor makes to the Transferee the following guarantees:

- (i) all the written Know-How and the Technical Information handed over or disclosed to the Transferee pursuant to the provisions of this Agreement will be correct, complete, up-to-date and adequate to [manufacture the Product] [apply the Process];
- (ii) the [Product] [application of the Process] will meet those performance characteristics for the Product [Process] set forth in Appendix No. . . . within the normally permitted tolerances;
- (iii) the [Product] [application of the Process] [operation of the Plant] will meet the safety and environmental requirements of the laws and regulations in force in the Territory of the Transferee [and will at least meet the said requirements as applicable on the Effective Date of this Agreement in the territory in which the Transferor carries out similar operations];
- (iv) the Plant will be designed, constructed and operated according to the Know-How and Technical Information furnished, or approved, in writing by the Transferor and will be mechanically capable of meeting the operating requirements set forth in the said Technical Information; and all components of the Plant, including all mechanical and electrical equipment and auxiliaries directly related and essential to operations of the Plant, will be in good mechanical and operating condition; the equipment of the Plant will be properly responsive to controls and will be capable of sustained operation for the period required for conducting performance tests as hereinafter provided.
- (v) within . . . months from the Start-Up-Date the Plant will attain at least a yield and reach the planned capacity which satisfies the requirements set forth in Appendix No. . . . ;
- (vi) the training services by the Transferor for the Transferee's personnel will be of a quality not less than that provided by the Transferor to his own personnel and adequate to meet the needs of the Transferee.

(138) See note (137), paragraph (i).

(139) See note (137), paragraph (iii).

(140) See note (137), paragraph (iii).

(141) *Terms and Conditions of the Guarantees*

It is understood and agreed that the guarantees set forth in Article . . . [see note (137), *supra*] shall apply only if the following conditions are satisfied:

- (i) the [Product is manufactured] [Process applied] in accordance with the specifications therefor and with the Know-How and the Technical Information and Technical Services and Assistance to be furnished under this Agreement;
- (ii) the workmanship in the [manufacture of the Product] [application of the Process] is comparable to the standards observed by the Transferor in its own [manufacture of the Product] [application of the Process];
- (iii) in the [manufacture of the Product] [application of the Process] the Transferee utilizes the methods and the specifications provided in the Transferor's written Know-How and in the Technical Information furnished by the Transferor as well as the raw material and semi-finished products and other substances provided in accordance with the terms of this Agreement, or the Transferee utilizes methods, specifications, materials, products or other substances of its own design or supply which are not inconsistent with the aforesaid Know-How and Technical Information and evidently practised or used in the Transferor's [manufacturing of the Product] [application of the Process] to the extent that the Transferee has information or actual knowledge of such current practices of the Transferor or which, though inconsistent, the Transferor has agreed may be utilized;
- (iv) in the [manufacture of the Product] [application of the Process] the Transferee uses personnel trained by the Transferor or trained under its direction.

scope and cost of the guarantee may depend on the extent to which one or more of these requirements is to be carried out or fulfilled by the technology supplier or the technology recipient, and whether it is subject to the control or approval of the other, or of both.

289. Typically, these conditions are those which the technology supplier deems necessary and has himself followed in achieving the results indicated. In that event, the agreement may also provide for verification by the technology recipient of the results so claimed by the technology supplier and may establish a procedure to that end, including the terms and conditions of the tests, their place, date, and the staff authorized to participate (142).

290. The guarantee of the technology supplier could conceivably go further and be phrased in terms of the suitability of the technology to meet the particular technological requirements of the technology recipient. In such a case, it is apparent that the commitment of the technology supplier will most likely depend not only on his own technological capability to meet those requirements but also on a thorough familiarity with the conditions under which the technology recipient is expected to, and will in fact, operate.

291. In the case of the installation and operation of equipment or of an industrial plant, the parties may wish to consider including in the technology transfer agreement a provision by which the licensor or technology supplier guarantees that the equipment (143) or plant (144) supplied by it will operate at a certain capacity (106) and that the performance requirements will be subject to a test which will take place after the installation and start-up of the plant or equipment in question (145). If the equipment or plant is to be supplied by the licensee or technology recipient, the licensor or technology supplier may nevertheless be asked and agree to carry out a performance test of the product as one of the technical services and assistance elements of the technology transfer transaction (146).

292. In that event, the technical requirements of the performance test are normally worked out among the technical personnel in advance of the negotiations and will often be set forth in a schedule to the license or the agreement (147). In this connection, it may be possible to separate, for individual testing and acceptance, distinct units of production or lines of equipment, particularly where such units or lines function independently or have not been supplied by the licensor or technology supplier but have been purchased or installed by the licensee or technology recipient. The corrective action to be taken in the event that the product does not attain the requisite quality and performance should also be specified (148).

293. A time limit is also normally set, beginning from the date of the delivery of equipment or the start-up date of the plant, within which the performance test must be held (149). This time limit may be

(142) See notes (146) to (160), *infra*.

(143) *Guarantee of Equipment Capacity*

The production of the said Plant will be realized by Equipment consisting of two (2) [Equipment] in active use and one (1) [Equipment] in reserve, a nominal design capacity of (number) metric tons per year of normal types, provided that the said Equipment can produce for sale by normal types (number) metric tons per year. Normal types are defined in Schedule No. . . .

(144) See note (137), paragraphs (iv) and (v), *supra*.

(145) See note (149), *infra*.

(146) *Test of the Product by the Transferor: Examination of Samples*

The Transferor agrees to test from time to time in (specified country) without additional charge to the Transferee the results of the manufacture by the Transferee of the Product by examining samples of such Product (which are to be put at the disposal of the Transferor free of charge) and send reports on such tests to the Transferee.

(147) *Test of the Product by the Transferor: Methods of Carrying Out Testing of Product*

Prior to any test of the Product, detailed methods of carrying out the test shall be agreed upon between the Transferor and the Transferee. These methods shall include methods of determining the composition of the Product, methods of mea-

suring the quality and the quantity of the Product, methods of taking and of compositing samples, etc.

(148) *Test of the Product by the Transferor: Corrective Action to Attain Quality and Performance*

In the event that the Product manufactured by the Transferee does not attain the quality and performance of the Product made by the Transferor as set forth in Appendix No. . . . then the Transferor will send his representatives to the Plant of the Transferee to ascertain the reasons for such failure and will propose the necessary corrective action to overcome the known deficiency. If the representatives of both Parties find the Transferor to be responsible for the failure, then the Transferor will cover all expenses connected with the rectification of the said failure up to the sum of . . . , whereas if the Transferee is found to be responsible, the expenses shall be covered by the Transferee.

(149) *Performance Test of the Plant: Commencement of Test*

The Transferor shall carry out a performance test of the Plant for the purpose of determining whether it meets the guarantee set forth in paragraph . . . of Article . . . (see paragraphs (iv) and (v) of note (137), *supra*). Such performance test shall be commenced as soon as is feasible following Start-Up of the Plant, on a date mutually agreeable to the Parties, but in any event not later than (specified number) days following Start-Up of the Plant [unless such period is extended by mutual agreement between the Parties].

subject to extension owing to delays caused by circumstances beyond the control of the licensor or technology supplier (150). The commencement of the performance test may be conditioned upon the supply by the licensee or technology recipient of raw materials, personnel, utilities, facilities and services, which are required to operate the equipment or the plant and to conduct the test (151). These are usually described in an appendix, annex or schedule attached to the license or agreement. The parties may also wish to allocate the costs incurred by either (152) or to make adjustments in the guarantee (153) or to provide for a release of the guarantee (154) or for the payment of damages (155) in the event that there is a delay in the commencement of the test or the conditions are not met.

294. During the performance test, it is normally required that the equipment or the plant operate continuously for a specified period in accordance with the technical requirements (156). If it does, the license or the agreement may then specify that the guarantee expires upon successful completion of the performance test (157). If the technical requirements are not met, the licensor or technology supplier is

(150) *Performance Test of the Plant:
Delay in Commencement*

Any delay in carrying out the performance test of the Plant due to any cause or circumstances beyond the control of the Transferor, which shall be promptly set forth in detail in writing to the Transferee, shall to that extent extend the time for commencing said performance test.

(151) *Performance Test of the Plant:
Procedure—Availability of Raw Materials, Personnel,
Utilities, Facilities and Services of the Transferee*

(a) Performance tests of the Plant will be conducted under the general supervision of the Transferor's personnel, and the Transferor shall not be required to furnish or make available such personnel until such time as the Transferee guarantees that a sufficient, dependable supply of the raw materials, and all personnel, utilities, facilities and services to be provided by the Transferee as required by Appendix No. . . . of this Agreement, to operate the plant and to conduct such tests are available for the Transferor's immediate use.

(b) In the event that the Transferee makes such guarantees and the Transferor furnishes its personnel, but the said raw materials, personnel, utilities, facilities and services to be provided by the Transferee are not readily available so that the Transferor is unable, through no fault of the Transferor, to conduct such tests, the Transferee shall pay the Transferor the actual costs to the Transferor of furnishing its start-up personnel for the same.

(152) See note (151), paragraph (b), *supra*, and note (148), *supra*.

(153) *Adjustment of Guarantee of Performance*

In the event that the Transferee is unable to supply the raw materials required by Appendix No. . . . and in the opinion of the Transferor the raw materials made available by the Transferee will result in lower yields than those guaranteed by the Transferor, the Parties shall agree on an appropriate adjustment in the guarantee set forth in paragraph . . . of Article . . . (see note (137), paragraph (v), *supra*) based on the best technical information available to support such adjustments.

(154) *Guarantees: Departure from Operating Conditions;
Release*

If, because of any departure from the conditions set forth in Article . . . (see note (151), *supra*), successful performance tests as provided for in Article . . . (see note (156), *infra*) are prevented, the Transferor shall notify the Transferee of such departure and the Transferee shall with reasonable promptness after such notice remedy any such departure; and, in the event of the said notice and remedy, the period for conducting the said performance tests shall be correspondingly extended. If, because of the Transferee's failure to remedy such departure for any reasons under the control of the Transferee, or if, because of any other reason under the control of the Transferee, successful performance tests as provided for in Article . . . (see note (156),

infra) are prevented, then the Licensor shall be released from all obligations under the guarantee as set forth in Article . . . (see note (137), paragraph (v), *supra*).

(155) See notes (259) and (260), *infra*.

(156) *Performance Test of the Plant:
Procedure—Operating Conditions*

During the performance test, the operating conditions shall be maintained at such values as may be specified by the Transferor's representatives from time to time during the test, while operating at a production rate selected by the Transferee between (specified number) percent (. . . %) and (specified number) percent (. . . %) of the design production rate and, unless the aforesaid guarantee is satisfied within a shorter period, the performance test shall be of not less than (specified number) days of substantially continuous operation. If, for any substantially continuous (specified number) hour period of operation at said rate selected by the Transferee during the performance test, the average yield equals or exceeds the guaranteed yield, the guarantee set forth in paragraph . . . of Article . . . (see note (137), paragraph (v), *supra*) shall be deemed to be satisfied. Any additional performance tests herein provided for shall be conducted as hereinabove provided.

(157) *Fulfillment of Plant Guarantee*

When the Transferor's guarantee set forth in paragraph . . . of Article . . . (see note (137), paragraph (v), *supra*) shall have once been met as provided in Article . . . (see note (156), *supra*), such guarantee shall no longer apply to the Plant, and the Transferor shall be released from all obligations under such guarantee as are therein set forth.

usually required, at his own expense, and within a specified period, to make changes in the equipment of the plant supplied by it (158), and to conduct further tests in order to enable the guarantee to be met (159).

295. The license or the agreement may contain a provision that requires the licensor or the technology supplier to submit a report on the results of the performance test indicating whether the guarantee has been met. The provision may further state that, if the licensor or technology supplier indicates that the performance was successful, and that, if the licensee or technology recipient does not specify in what respect the guarantee has not been met, the guarantee will be deemed satisfied (160).

296. As concerns the matter of claims of third persons based on infringement of their industrial property rights as a result of the use by the technology recipient of the technology supplied by the technology supplier, the problems are similar to those considered in connection with the invalidation of the patent (see Section E: Points Concerning Patents, paragraphs 190 to 206).

297. A provision could be included in the technology transfer agreement to the effect that the use by the technology recipient of the technical information furnished by the technology supplier will not infringe upon any patent held by a third person or that at least the technology supplier has no knowledge of any patents issued to third persons that would prevent the full enjoyment of the technical information furnished under the agreement (161).

298. In this connection, attention is drawn to the laws in certain countries governing the transfer of technology which provide that the agreement may not exempt the technology supplier from liability in the case of actions by third persons for infringement of industrial property rights.

299. Remedies for the case where the guarantee is not met are the subject of another section of these explanatory notes (see Section S: Default; Changed Conditions or Events; Waiver; Remedies, paragraphs 557 to 576). The question of the allocation between the parties of responsibility for injury to third persons and for damage to their property is also considered in another section of these explanatory notes (see Section R: Injury or Damage to Third Persons or their Property; Insurance, paragraphs 548 to 556).

(158) *Performance Test of the Plant:
Changes in the Plant by the Transferor*

In the event that the Plant meets the conditions set forth in Appendix No. . . . but fails in any performance test to meet the guarantee referred to in paragraph . . . of Article . . . (see note (137), paragraph (v), *supra*), the Transferor shall have the right, prior to any particular performance test, to make at its own expense such changes in the Plant as it deems desirable in order that the said guarantee may be met. The Transferor shall be permitted a reasonable time within which to effect any such changes, and, to the extent of any delays in the conduct of performance tests thereby occasioned, the period for conducting performance tests herein provided shall be correspondingly extended.

deemed to be satisfied if the Transferor indicates that the performance test was successful, and if the Transferee, within (specified) days after notification by the Transferor of the results of such performance test, does not specify in writing to the Transferor in what respect, in the Transferee's opinion, such guarantee has not been met.

(161) *Warranty by the Transferor as to Prevention by Third Persons of the Enjoyment by the Transferee of the Technical Information*

The Transferor warrants that as of (specified date) it has no knowledge of any patents granted or rights inuring to third persons that would prevent the full enjoyment of the Technical Information furnished under this Agreement.

(159) *Performance Test of the Plant:
Additional Tests*

If, during the course of the first performance test, the guarantee referred to in paragraph . . . of Article . . . (see note (137), paragraph (v), *supra*) is not met, the Transferor will conduct such additional performance tests as the Transferee may request from time to time for the purpose of satisfying the aforesaid guarantee; provided that the Transferor shall not be obligated to commence a performance test beyond the expiration of the guarantee period referred to in Article . . . (see note (156), *supra*).

(160) *Performance Test of the Plant by the Transferor:
Reporting Results*

Within a reasonable period of time after the completion of the performance test conducted as provided in Article . . . (see note (149), *supra*), the Transferor shall determine and submit to the Transferee in writing the results thereof indicating whether the guarantee set forth in paragraph . . . of Article . . . (see paragraphs (iv) and (v) of note (137), *supra*) hereof has been met in such performance test. Such guarantee shall be

H. TECHNICAL SERVICES AND ASSISTANCE

(Types of technical services and assistance: training, design and engineering, marketing and commercial management, planning, research and development; sufficiency of the description in the agreement of the purpose, scope and content of such services and assistance; specification of the conditions of performance; determination of whether the cost of particular technical services or assistance are to be borne by the technology supplier or the technology recipient; fixing of the fees for technical services and assistance)

1. *In General*

300. Any one or more of a variety of technical services and assistance may be involved in a given technology transfer transaction. Professional expertise—whether in the form of engineers, specialists, experts or consultants—may be utilized to establish training programs or to provide design and engineering services, technological services, marketing and commercial services, management services, and planning, research and development. Each of these types of services and assistance is described briefly in this explanatory note.

301. Once the need for particular technical services and assistance has been determined by the parties to the technology transfer transaction, the problems encountered are similar to those that arise in negotiating and drafting a contract of employment or for personal services.

302. A number of international organizations and national associations have developed standard contracts and conditions and general rules relating to technical services and assistance, including, for example, an International Model Form of Agreement and International General Rules for Agreement between Client and Consulting Engineer, a Contract for Consultants' Services, and Conditions for the Provision of Technical Personnel Abroad, which are useful aids in the negotiation and preparation of the appropriate legal agreements (162).

303. The principal legal problems encountered in the context of a given technology transfer transaction concern the sufficiency of the description in the industrial property license or technology transfer agreement of the purpose, scope and content of technical services and assistance, the specification of the conditions under which they are to be performed or carried out, the determination of whether the cost of particular services and assistance is to be borne by the licensor or technology supplier or by the licensee or technology recipient, and, if by the latter, the fixing of the fee for the services and assistance to be rendered (163). The matter of remuneration for technical services and assistance is treated in a subsequent section of these explanatory notes (see Section N.3.f., paragraphs 464 to 481), whereas the other problems are considered in this section of the explanatory notes.

2. *Training*

304. The professional expertise of the technology supplier is frequently used to train the staff of the technology recipient so that such staff may replace individual engineers, specialists or experts as well as managerial personnel provided by the former and eventually take over and operate the industrial plant.

(162) See *Guidelines for Contracting for Industrial Projects in Developing Countries (1975)*, a study by the United Nations Industrial Development Organization (UNIDO), United Nations Publication ID/149, Sales No. E.75.II.b.3.

(163) *Technical Services and Assistance*

The Transferor shall, at the request of the Transferee [and at the expense of the Transferee] make available to the Transferee in (specified country) the Technical Services and Assistance hereinafter described. For this purpose, the Transferor shall:

(a) advise on the factory layout, assembly process—and improvements thereof—for the Product, in its successive stages, and on material handling, flow and storage of component parts and of the Product;

(b) carry out tests of the Product in accordance with Articles ... (see notes (146) to (148), *supra*);

(c) advise on quality control of the Product;

(d) advise on selection methods for personnel to be employed by the Transferee in manufacturing the Product;

(e) provide training to the Transferee's personnel in accordance with Article ... (see note (165), *infra*);

(f) supervise the Start-Up and putting into operation of the Plant;

(g) carry out the performance test of the Plant in accordance with Articles ... (see notes (149) to (160), *supra*);

(h) make available engineering services as provided in Article ... (see note (166), *infra*);

(i) dispatch engineers, specialists and experts in accordance with Article ... (see note (167), *infra*).

305. From one point of view, the training by the technology supplier of the personnel of the technology recipient is one concrete way in which the technology supplier discloses know-how and thus transfers technology to the technology recipient.

306. The training services provided by the technology supplier may include devising a long-term training plan, setting up, if necessary, an in-plant training program, administering a training center for the benefit of the engineers, technicians and other technical staff of the technology recipient, and making arrangements for training higher level staff, such as administrative, financial, marketing and managerial personnel.

307. The training plans and program will normally specify the type and quality of instruction to be given, the category, qualifications and number of trainees, the method of their selection, the time, period, place, frequency and language of the training (164), and the measures for the reintegration of the trainees into the staff of the technology recipient so that the training will inure to the benefit of the technology recipient and not others with whom the trainees may find better terms of employment.

308. Where instructors from the technology supplier are to travel to the place of the technology recipient or the staff of the latter are to undergo training at the plant of the former, the facilities to be accorded to their respective personnel will need to be considered. These will include applying for necessary entry visas and labor permits, adopting measures to ensure compliance with local laws, especially concerning civil responsibility (165), obtaining travel, accident and medical insurance, providing for accommodation, meals, transportation, recreation, medical facilities and communications, and making arrangements in the event of incapacity or death of an instructor or a trainee.

309. Attention is drawn to the laws in certain countries governing the transfer of technology which require that the patent license or the technology transfer agreement provide that national staff be adequately trained to absorb and handle the technology forming the subject matter of the license or agreement.

3. *Design and Engineering Services*

310. Design and engineering services are the "classical" consulting services for the installation or assembly of equipment or of an entire industrial plant (166). They may include plant design, preparation of tender documents for equipment and for civil engineering, evaluation of bids, the installation or

(164) *Training of the Transferee's Personnel*

(a) Personnel designated by the Transferee shall be given adequate opportunity to study the method of manufacture of the Product at the manufacturing plants of the Transferor. Such personnel shall be given adequate opportunity to acquaint themselves with the production design, production engineering, processes of production and testing of the Product and with related shop practices and operations at such plants, and to discuss such production design, production engineering, process of production, testing practices and operations with the Transferor's appropriate engineers and production personnel at such manufacturing plants. The Transferee's designated personnel shall be permitted to make notes and sketches and to procure pertinent information and photographs in the possession of the Transferor relating to the foregoing including purchase material costs and methods of quality control which may be in use in connection with the manufacture of the Product.

(b) The number of the Transferee's personnel shall not exceed (number) in each time, and the sum arrived at by multiplying each such personnel by the number of days visiting the Transferor's plants and totaling the quantity thus arrived at shall not exceed (number) man-days in each year.

(c) The Transferee shall advise the Transferor in advance, in writing, of the names, interests, qualifications and probable lengths of stay of the Transferee's designated personnel desiring to visit such plants in order to provide ample time to enable the manufacturing plants to prepare for such visits.

(d) The travel and living expenses and all other expenses for such personnel shall be borne by the Transferee.

(165) *Personnel of Either Party Subject to Local Law*

Personnel of either Party, during the time they are present on the premises of the other Party, shall be subject to all rules and regulations prevailing on the premises of such other Party. However, none of such personnel of either Party shall be considered for any purposes to be an employee of the other.

(166) *Engineering Services*

(a) It is recognized that the Transferee will require engineering advice to facilitate its rapid progress for the tooling up and the manufacture of the Product.

(b) In this connection, the Transferor will provide at the Transferor's factory an expert engineering staff specialized in the field of the Product forming the subject of this Agreement and related laboratory and other supporting facilities.

(c) This engineering staff will be available for consultation purposes to the Transferee for a total of (specified number) man-hours per year during the term of this Agreement to be appropriated during any one year as follows: (specified number) man-hours per month, or, if desired, (specified number) man-hours apportioned as desired by the Transferee in any (specified number) month period of such year. If (specified number) man-hours of the Transferee's engineering time are not used in any one month by the Transferee, the difference in man-hours from that actually used and that allowed may be carried over for use in later months of said yearly period to the maximum accrual of (specified number) man-hours.

assembly of the equipment, the supervision of the erection, start-up and testing of the industrial plant, as well as assistance in the initial operation of particular items of equipment or the entire industrial plant (167).

4. *Technological Services*

311. Technological services are concerned with the evaluation and improvement of production methods and quality controls, the establishment of industrial plant regulations and codes, including construction standards, safety facilities, and studies and recommendations of environmental aspects of the industrial plant and the product or the process.

5. *Marketing and Commercial Services*

312. Marketing and commercial services may extend to studies and advice on brand names, labeling and packaging, advertising and other sales promotion techniques, after-sales service, channels of distribution, consumer preferences and acceptability, merchandising techniques, storage, handling, transportation, customs duties, export and import regulations, methods of payment, and anticipated sales turnover, including the volume of expected domestic and export sales.

6. *Management Services*

313. Complex technology transfer transactions may give rise to heavy demands for managerial and organizational skills. Such skills may be acquired by managers of recipient enterprises through learning-by-doing in management and organization with the help of consultants, or they may be entirely provided through management service contracts.

314. Such management services may extend to the review and evaluation of the objectives and goals of an existing production or marketing program or project, planning and supervising the production and marketing of the product, and applying the necessary rules and procedures for carrying out or otherwise administering personnel, financial and fiscal policies.

7. *Planning, Research and Development Services*

315. Planning, research and development services may relate to the product, to investment or to organization. These services may extend to appraising the market potential of an improved product or of new products, formulating programs and devising projects to improve the existing product or the process for its manufacture or to create new products or processes, and determining the need for additional investment and the forms of organization to carry out the programs and projects.

316. The services may include general economic surveys of the geographical area or areas under consideration to determine probable future development, preliminary industry surveys of the market, project feasibility studies, project analysis, investment estimates, studies of the available labor market and of raw materials and parts or other components, an evaluation of the types of business relationships which are possible, the identification of sources of financing, and other pre-investment-type services. Such services may also include implementing the programs and projects through actual

(167) *Dispatch of Engineer, Specialist, Expert*

(a) Upon written request of the Transferee, the Transferor shall send to the Transferee, subject to the availability of personnel and to mutual agreement, one or more qualified engineers, specialists or experts to render services and assistance to the Transferee in connection with the [manufacture, sale and operation of the Product] [application of the Process] [installation, operation, and maintenance of the Plant or Equipment] [training of Transferee's personnel] for a reasonable period to be agreed upon by the Parties hereto.

(b) The Transferee agrees to bear for each such engineer, specialist or expert the travel expenses to and from the place of the Transferor, the living expenses at the place of the Trans-

feree, incurred by any such person, as well as a fee per day during the period of each such person's visit, at the amount agreed upon by the Parties hereto in advance.

(c) The sending of each such engineer, specialist or expert shall be subject to the prior approval of the terms and conditions agreed upon by the Parties having been obtained from case to case from the government authorities concerned of the country of the Transferee.

(d) Persons sent by the Transferor to the Plant of the Transferee to assist the Transferee hereunder shall be furnished by the Transferee with suitable working facilities, clerical services, proper equipment and tools to enable such persons properly and efficiently to perform their duties.

research and development with a view to improving the product or the process or creating new products or processes or acquiring the technology necessary to do so.

317. Under the laws in certain countries governing the transfer of technology, the industrial property license or technology transfer agreement must explicitly define and give the extent and details of the technical services and assistance as well as specify precisely and clearly the scope or field of activity in the country and abroad of the technicians or professional experts who will actually render the technical services and assistance or carry out the personnel training program. In addition, the laws in certain of these countries require that technical services and assistance be rendered by the licensor under a patent license, when applicable, or by the technology supplier under an agreement for the supply of know-how to be applied in the production of consumer goods or under an agreement for the supply of know-how required for the manufacture of machines, equipment or other capital goods. Further, under these laws, technical services and assistance agreements will not be approved if the technical services or assistance can be provided by or through national consulting or engineering firms and, in the cases where contracting abroad is undertaken, it must be shown that the technology recipient employs, on a permanent basis, sufficient technicians or professional experts to absorb such technical services and assistance.

I. THE SUPPLY OF CAPITAL GOODS, INTERMEDIATE GOODS, SPARE PARTS, COMPONENTS OR RAW MATERIALS

(The licensor or technology supplier as a source of supply of capital goods; machinery suppliers and plant constructors as a source of technology; link between the technology to be supplied and particular capital goods, intermediate goods, spare parts, components or raw materials; acquisition of such items at competitive prices; exclusion of such items from the definition of the net selling price; provision of drawings, designs or specifications; legal effect of provisions allowing or requiring the licensee or technology recipient to acquire capital goods, intermediate goods, spare parts, components or raw materials of a specified origin or from a specified source)

1. *Technology Suppliers as a Source of Supply of Capital Goods*

318. The technology transferee may be in need of certain machines, equipment or other capital goods, if not an entire industrial plant, in order to manufacture the product or to apply the process for its manufacture. The technology transferor from whom the technology for that manufacture is to be acquired may be also a source of supply for particular capital goods or for the entire industrial plant or at least in a position to give advice on sources of supply.

2. *Machinery Suppliers and Plant Constructors as a Source of Technology*

319. In turn, machinery and equipment suppliers or plant construction companies are themselves important sources of technology in that they are in a position to provide the technology transferee with technical services and assistance to operate and maintain the machinery or equipment. Where the plant and equipment are technically complex, machinery suppliers and plant constructors are usually in a position to send their own personnel to start up production and to run the plant for an initial period while local personnel are being trained.

3. *Link Between the Technology to be Supplied and Particular Capital Goods, Intermediate Goods, Spare Parts, Components or Raw Materials*

320. Apart from the usual array of legal problems inherent in the negotiation and preparation of any contract of sale and purchase of capital goods, the essential legal difficulty involved in the acquisition of plant or equipment in the context of a given technology transfer transaction is the extent to which an industrial property license or technology transfer agreement may include provisions which require the licensee or technology recipient to purchase particular capital goods from the licensor or the technology supplier or which otherwise limit the source of the supply of such goods.

321. A similar legal difficulty is involved in the acquisition of intermediate goods, spare parts or other components or raw materials for the product to be manufactured. The considerations indicated in this

explanatory note are also relevant to the subject of the acquisition of those items, other aspects of which are treated in a subsequent explanatory note (see Section J: Points Concerning the Production Phase, paragraphs 331 to 344).

322. Licensors or technology suppliers, and even licensees or technology recipients, may insist on linking the license or the agreement to the supply of capital goods, intermediate goods, spare parts or other components or raw materials on technical grounds. It may be that a given technology cannot be worked out, or that the quality of the product, especially one which is destined for export or is to bear the trademark of the licensor, cannot be guaranteed, or that the usual guarantees cannot be given, if particular machines or other equipment or designated intermediate goods or components or certain raw materials are not used.

323. Accordingly, it may be in the interest of the parties to include in the license or the agreement at least the assurance of the licensor or the technology supplier that, upon request, the licensee or technology recipient will be supplied with specified machines, equipment or other capital goods, or with such intermediate goods, spare parts or other components or raw materials as may be required to exploit the technology or to market the product which is to meet a given standard of quality (168). This assurance could be given by the licensor or technology supplier for a limited period or subject to alternative sources of supply, for example, until or unless such items are available in the country of the licensee or technology recipient, or for an indefinite period in the event that it is generally more advantageous to obtain the items in question from the licensor or technology supplier (169). In the case of equipment, this assurance could extend also to its maintenance, repair and replacement (170).

4. *Supply of Items at Competitive Prices*

324. In either event, the licensee or technology recipient may wish to obtain the assurance from the licensor or technology supplier that, if the items in question are purchased from the licensor or technology supplier, they will be supplied at competitive prices—usually no higher than current international market prices—or, in the event that the licensor or technology supplier supplies to third persons the same items, then at the most favored price (171).

5. *Exclusion of Items from Definition of Net Selling Price*

325. Where the licensee or technology recipient does, or is likely to, include in the product intermediate goods, parts or other components or raw materials, supplied by the licensor or technology supplier, the parties may wish to define the net selling price, upon which royalty payments for the technology supplied by the licensor or technology supplier may be based, in such a manner as to exclude the cost of such items supplied by the licensor or technology supplier from the calculation of the net selling price. (See, in this connection, Section N.3.b.(2)(b), paragraphs 420 to 424 (172).

6. *Provision of Drawings, Designs or Specifications*

326. Where capital goods, intermediate goods, parts or other components or raw materials may be acquired from sources other than the licensor or technology supplier, it will be in the interest of the

(168) *Acquisition of Equipment from the Transferor*

The Transferor, at the request of the Transferee, agrees to supply to the Transferee the Equipment at such prices, not higher than current international market prices, and on such other conditions, including the maintenance, repair and replacement of such Equipment, as may be agreed upon between the Parties.

(169) *Acquisition of Equipment from Sources in the Transferee's Country or on the International Market*

The Transferee may give preference to Equipment which is produced, or is available for sale by suppliers, in (country of

the Transferee), or on the international market, provided such Equipment is offered at equally advantageous conditions with regard to quality, price and availability at the time and in the quantities required and provided further that, even if such Equipment is not, in (country of the Transferee), so offered with regard to price, such Equipment is nevertheless so offered with regard to quality and availability.

(170) See note (168), *supra*.

(171) See note (168), *supra*.

(172) See also note (47) (Definition of "Net Selling Price"), *supra*.

licensee or technology recipient to obtain the assurance of the former that drawings, designs or specifications concerning such items will, if needed, be provided by the licensor or technology supplier (173).

327. It should be noted, however, that the availability of alternative sources of supply will depend upon the nature of the product to be manufactured with the technology to be acquired. In certain circumstances, the licensor or technology supplier may be the only or the principal supplier of the items in question or may have a dominant position as concerns the technology related to such items. Even where alternative sources are available, it must be borne in mind that drawings, designs or specifications may be drafted in such a manner that a limited number of sources will be able to meet the procurement requirements of the items in question.

7. *Legal Effect of Provisions Allowing or Requiring the Licensee or Technology Recipient to Acquire Items of a Specified Origin or from a Specified Source*

328. Attention is directed to the fact that the linking of an industrial property license or a technology transfer agreement to the supply of capital goods, intermediate goods, components or raw materials has been subject to critical analysis. Provisions for the linking of the license or the transfer of technology to such a supply ("tied" provisions or clauses) have been objected to as resulting in additional income for the licensor or the technology supplier and as means of overpricing the inputs of the technology transfer transaction. Further, if the capital goods, intermediate goods, spare parts, components or raw materials are available on the world market, the licensee or technology recipient who is bound by a tied provision requiring the purchase of such items from the licensor or technology supplier, as well as third persons who are excluded by such a provision from supplying such items, are unable to make use of market opportunities. The latter consideration would appear to be less valid where the provision simply allows, but does not require, the licensee or technology recipient to acquire such items from the licensor or technology supplier or other specified sellers.

329. Attention is also directed to the fact that, under the laws in certain countries concerning industrial property or controlling restrictive business practices or governing the transfer of technology, effect may not be given to a provision in the industrial property license or technology transfer agreement which imposes an obligation upon the licensee or technology recipient to acquire capital goods, intermediate goods, spare parts, components or raw materials, of a specified origin or from specific sources of supply, even if located within the country.

330. Further, under the laws in certain countries governing the transfer of technology, the license or the agreement will not be approved if it does not contain the commitment of the licensor or technology supplier to provide capital goods, intermediate goods, parts or other components, raw materials or services which are necessary for the manufacture of the product or the application of the process to which the technology transferred relates. (Presumably, under these laws, the commitment is mandatory if the licensee or technology recipient requests such a commitment.) Such laws also declare that the license or agreement must contain a guarantee that the price of such items or services so provided shall not be higher than current international market prices. Under such laws, such items are normally to be excluded from the calculation of the net selling price upon which royalty payments for the technology transferred are to be based.

J. THE PRODUCTION PHASE

(Manufacture or assembly of the product or of its components by a subcontractor or by the licensor or technology supplier; measures to safeguard against the disclosure of technical information in the event of subcontracting; standard of quality of the product, especially in the case of products bearing a trademark; quality controls; need to impart know-how as to quality of the product; volume of production)

I. *In General*

331. There are a number of points to be considered in negotiating or preparing an industrial property license or technology transfer agreement which directly or indirectly concern the production phase.

(173) *Availability of Drawings to Alternative Sources of Equipment*

For the purposes of Article ... (see note (169), *supra*), the Transferor agrees to make available direct to such source or

sources as shall be selected by the Transferee all such detailed drawings, bills of materials and technical information relating to the Equipment or parts thereof as may be necessary for its manufacture.

2. *Sub-Contracting*

332. One matter which the parties to the technology transfer transaction may wish to consider is the question whether the entire manufacture of the product is to be undertaken by the licensee or technology recipient or whether some portion is to be undertaken by a third person as a sub-contractor of the licensee or technology recipient or whether the licensor or technology supplier is to supply or is to assemble certain components of the product. The question of the supply or assembly of components by the licensor or technology supplier has been treated in the previous explanatory note (Section I, paragraphs 318 to 330).

333. As concerns the question of sub-contracting, it will be in the interest of the licensee or technology recipient to have the possibility of engaging third persons to manufacture parts or other components of the product or to assemble a portion of the product. To this end, the provisions concerning the scope of the license or the agreement need to be examined and so drafted that they do not preclude such sub-contracting. Wording in the grant clause of a patent license conferring upon the licensee the right "to manufacture and to have manufactured" the product (174) normally conveys the intention to allow sub-contracting (see also Section Q.4, paragraph 544).

334. In the event that sub-contracting is allowed, the licensor or technology supplier will wish to be assured that appropriate measures are adopted by the licensee or technology recipient and the sub-contractor to safeguard against the disclosure of technical information or other know-how provided by the licensor or technology supplier (see Section G.3, paragraph 270) (175).

3. *Standard of Quality of the Product*

335. Another matter of concern to both parties is the question of the maintenance of a standard of quality for the product. The quality of the product is a factor in establishing the goodwill of the licensee or technology recipient and in maintaining a competitive position in the market. It is also important to the reputation of the licensor or technology supplier if the product is to be marketed bearing the trademark of the licensor or technology supplier. From the point of view of the public, a product bearing a trademark carries with it a certain reputation for quality, consistency or the like for which someone, whether identified or not, holds himself responsible. Even where the product does not bear a trademark, if the payment of royalties for technology transferred is a function of the amount of sales of the product in a competitive market, then the quality of the product will have a bearing on the demand for the product and in turn on the sales of the product.

4. *Quality Controls*

336. Quality control may be exercised in a variety of ways, each reflected in an appropriate provision of the license or agreement. The parties may stipulate an agreed standard of quality. In the case of goods bearing the trademark of the licensor or technology supplier, that standard will normally be the standard of quality in materials and workmanship set by agreement between the licensor or technology supplier and the licensee or technology recipient, taking into account also applicable governmental regulations, to achieve the quality standard of the licensor or technology supplier (176). The parties may wish to consider whether that standard should be different when the product bearing the trademark is to be marketed nationally only, as distinct from either regionally or internationally. In either case, the standard of quality can be a significant if not controlling factor when the market is highly competitive.

337. Other ways, although indirect, to assure that a given standard of quality for the product is achieved are to provide that no other technology than that supplied by the licensor or technology supplier may be used, or that no changes will be made in that technology (see also Section D.6, paragraphs 186 to 189), or that certain production procedures will be followed, or that operations may

(174) See note (77), *supra*.

(175) See also note (126), *supra*.

(176) See note (45) (definition of "Standard of Quality"), *supra*.

be inspected and tests of the product may be conducted by the licensor or technology supplier, or that personnel designated by the licensor or technology supplier will be employed to supervise certain phases of production, or that specified equipment, intermediate goods, parts or other components or raw materials will be utilized in the manufacture or assembly of the product. Most, if not all, of these indirect ways to achieve a given standard of quality have been criticized as impeding the possibilities of acquiring alternative technology and of adapting the technology acquired from the licensor or technology supplier and the product to local demand or of utilizing local resources.

338. In this context, attention is directed to the fact that, under the industrial property laws in certain countries, quality requirements are regarded as within the rights conferred by a patent and consequently a provision in the patent license designed to ensure quality control may be sustained. Moreover, under the trademark laws in certain countries, a trademark license may be void in the absence of relations or stipulations between the registered owner of the mark and the licensee ensuring effective control by the registered owner of the quality of the goods or services of the licensee in connection with which the mark is used.

339. A similar approach has been taken in the laws in certain countries governing the transfer of technology which state that an industrial property license or technology transfer agreement must contain a provision guaranteeing the quality of the goods or services to be supplied by the licensee or technology recipient or which state that the trademark license must provide that the products or services to be distinguished by the trademark or publicity slogan shall contain identical specifications, and be of the same kind and quality as the products and services produced by the licensor himself, excepting the norms issued internally by the competent authorities in this respect. In at least one other country, a provision imposing quality specifications or measures standardizing quality which are incompatible with those laid down in the legislation of that country is to be considered unfavorable except in cases in which the product is mainly intended for markets in which standards and qualities are necessary.

340. On the other hand, quality requirements may not necessarily withstand the proscription that appears in the laws in certain other countries governing the transfer of technology under which the license or contract may not contain a provision limiting production.

341. Concerning the possible effect of laws in certain countries governing the transfer of technology on provisions in an industrial property license or technology transfer agreement relating to the supply of capital goods, intermediate goods, parts or other components, raw materials or services for the manufacture of the product or the application of the process, see Section I, paragraphs 328 to 330.

5. *Need to Impart Know-How as to the Quality of the Product*

342. It follows that in those jurisdictions where proper control over the quality of the product bearing a trademark must be exercised and, further, quite apart from such a requirement, in those instances where an agreed quality standard has been stipulated, the parties to a license agreement would be well advised to include a provision that the owner or licensor of the trademark will inform the licensee or technology recipient of the way in which the product is to be manufactured so that it will achieve the required quality standard (177). Provisions should also be made for testing samples of the product and for inspecting its manufacture (178) as well as for withdrawing or correcting the product if it does not meet the standard of quality (179).

(177) *Supply of Technical Information by Licensor to Achieve Standard of Quality*

To ensure that the Product on or in relation to which the Trademark is used achieves the Standard of Quality, the Licensor shall supply to the Licensee all Technical Information needed concerning the Standard of Quality.

(178) *Licensor to Receive Samples of Product and to Visit Licensee's Plant*

It shall not be necessary for the Licensor to provide constant supervision of the Licensee's manufacture of the Product. It shall be sufficient that the Licensee will from time to time on

request supply at its own cost random samples of the Product to the Licensor and that the Licensor may on reasonable notice during business hours by its authorized representative visit the Licensee's Plant to inspect methods of manufacture, materials used and storage and packing of the Product.

(179) *Failure to Attain Standard of Quality*

Any Product intended to be marketed under the Trademark which fails to attain the Standard of Quality shall, at the expense of the Licensee, be withdrawn from the production line and corrected or destroyed [or the Product may be sold provided it carries no reference to the Trademark].

6. *Volume of Production*

343. Another matter which merits careful consideration by the parties to the technology transfer transaction is the question of the extent to which the volume of production of the licensee or technology recipient may, or should be, limited. The volume of production may be restricted by provisions in the license or the agreement which prescribe a minimum or maximum production quota, or confine the use of the technology or the manufacture or the assembly of the product to specified plants, or limit the size or location of the production facilities. The volume of production can also be restricted indirectly if higher royalties are to be paid beyond a certain production quota, or if the technology transferee is to produce the product in a prescribed package with a certain weight.

344. These restrictions may have as their purpose the achievement of an agreed standard of quality, in which event, the considerations outlined above are relevant. On the other hand, such restrictions may be intended to reinforce the competitive position of the licensor or technology supplier or of third persons. If the provisions are intended to have, or in fact do have, the effect of maintaining prices or allocating markets, they may not withstand scrutiny under laws controlling restrictive business practices. Under the laws in certain countries governing the transfer of technology, effect may not be given to a provision in an industrial property license or technology transfer agreement which controls, limits or restricts production.

K. SPECIAL ASPECTS CONCERNING TRADEMARKS

(Problems analogous to those considered in connection with patents: identification of the trademark, refusal of grant and invalidation of registration, field of use or activity, specification and exclusivity of the territory, standard of quality, marketing measures; devices for conferring rights to use the trademark; form and method of use of the trademark; associated and combined trademarks)

1. *In General*

345. The legal aspects of trademarks may be viewed from different perspectives. However, in the context of the technology transfer transaction the role of the trademark in the marketing phase of the product will be the principal concern of the licensee or technology recipient. It is from this standpoint that the parties will wish to consider a number of problems in the course of the negotiation and preparation of the appropriate industrial property licenses and technology transfer agreements.

2. *Problems Similar to Those Arising in Connection with Patents*

346. Some of these problems are analogous to those arising in connection with the license of patent rights and which have been treated at some length in other explanatory notes. Thus it goes without saying that just as in the case of the patent or patents or applications therefor, which are to serve as the subject of the patent license (see Section D.1, paragraphs 133 to 142), the trademark or trademarks to be used will need to be identified clearly in the trademark license (180), any registration in the country in which the license applies will be indicated, and an investigation undertaken to determine whether the trademark has already been anticipated by prior similar trademarks. The implications of a refusal to grant or the invalidation of the registration of the trademark will need to be considered and appropriate solutions adopted, perhaps along the lines suggested in the case of the refusal or invalidation of the grant of the patent (see Section E.1, paragraphs 190 to 206).

347. Similarly, other matters which are not peculiar to trademarks have been considered already in the explanatory notes. These include the field of use or activity (Section D.3, paragraphs 147 to 160) (181), the specification of the territory (Section D.4, paragraphs 161 to 164) and the exclusivity and non-

(180) See notes (16) and (29), *supra*.

(181) *Permission to Use Trademark*

The Licensor hereby grants to the Licensee on the terms and conditions of this Agreement the permission to use as a trademark [but not as part of the trade name or corporate title of

the Licensee or of any of its Associates] the Trademark upon or in relation to the Product which is put on the market for use or consumption in (specified territory).

exclusivity of the territory (Section D.5, paragraphs 165 to 185) with respect to which the product bearing the trademark may be used or sold (182).

348. So also, the question of the standard of quality of a product which is to bear the trademark of the licensor is examined in the context of the general problem of the standard of quality of the product (Section J.3, 4, 5, 6, paragraphs 335 to 344). Special difficulties arising from measures to assist the licensee or technology recipient in marketing the product, including the case where it bears the trademark of the licensor, are treated in Section L, paragraphs 360 to 387. The calculation of royalties is discussed in Section N, paragraphs 390 to 496.

349. There remain, however, some legal aspects of trademarks which are different from those concerning patents and which merit being singled out for special treatment in this section of the explanatory notes.

3. *Devices for Conferring Rights to Use the Trademark*

350. The devices or mechanics for conferring rights to use the trademark will need to be examined with some care. In some countries the law recognizes the licensing of trademarks and it may provide for the registration of the license with, or without, an examination of the necessary documents, and an approval in light of specified requirements.

351. Where there is no provision for licensing, the parties may have to resort to such expedients as the registration of the trademark locally by its owner, an assignment of that registration to the user and a reassignment to the owner which is executed but undated or, alternatively, the registration of the trademark by the user and the assignment of that registration to the owner (183). Under the laws in certain countries on industrial property, even an assignment is not permitted unless accompanied by a transfer of all or part of the enterprise using the trademark. Alternatively, the owner may be able to appoint the user as a sub-contractor of the owner and at the same time as the sole sales agent for the owner.

352. In this connection, attention is directed to the laws in certain countries governing the use of foreign trademarks, the provisions of which sometimes appear as part of the laws in such countries governing the transfer of technology. These laws require that legal agreements for the exclusive acquisition of rights or licenses to use or work trademarks be submitted for government approval. Such agreements will not be approved unless they contain certain undertakings on the part of the licensor or the licensee, as, for example, that the licensee must develop a substitute local trademark, that the licensor allows the free use of the foreign trademark in the national market, or that the licensor grants licenses for the export of the product bearing the trademark to other countries and agrees that the royalties to be paid for the use of the trademark will be a percentage of the foreign currency earnings resulting from the product bearing the trademark in export operations. (As to combined or associated trademarks, see paragraph 357).

4. *Form and Method of Use of the Trademark*

353. Where a trademark is registered, it may be a condition of continued validity under the laws in certain countries concerning trademarks that the trademark be used by the owner of the registered trademark, such as by manufacturing and selling a product bearing the trademark. Under such laws, use of the trademark by the licensee is deemed to be use by the registered owner. It therefore is not surprising that the licensor will wish to include provisions in the trademark license to the effect that the

(182) *Exclusive Use of Trademark*

The Licensee shall be the sole licensee of the Trademark and the Licensor agrees that it will not itself market the Product in (specified territory).

(Owner) in connection therewith. Should it be desirable that any such application should be made in the name of the (User), such application shall be made by the (User) at the expense of the (Owner). Any registration so obtained shall be promptly assigned to the (Owner).

(183) *Registration in the User's Territory*

Where it is or becomes advisable for an application to be made for the registration of the Trademark in (specified territory), the (User) will render all reasonable assistance to the

licensee will not simply use the trademark in advertising in the country, as that is not normally regarded as sufficient use, but that the licensee will sell the product in the country under the trademark.

354. Further, the licensor may wish to provide for the method of use of the trademark on, or in relation to, the product, such as by prescribing the types of letters, the form, size and color of the trademark and its location on the product (184) as well as whether it is to be indicated that the use of the trademark is "with" or "under" the authority of the owner (see paragraphs 362 and 363).

355. In this regard, attention is directed to the laws in certain countries governing the licensing of trademarks which require that, as to trademarks registered in the name of holders abroad, the trademark may only be used if the wording is translated into the national language of the country. Also, under the laws in some of these countries, a provision in a know-how agreement will not be approved if it imposes, as a condition of the supply of technology and services, the use of a foreign trademark or publicity slogan. Under the laws of still another of these countries, the use of a foreign trademark is not permitted on a product manufactured under a foreign collaboration agreement which is intended for the domestic market, but it is permitted on such a product intended for the export market.

5. *Associated and Combined Trademarks*

356. The licensee or technology recipient may wish to use a number of different trademarks with a common feature ("associated trademarks"), the differences indicating slight variations in the composition of the product which may be used for different applications. Similarly, the licensee may wish to use his own trademark in conjunction with the trademark of the licensor ("combined trademarks"). In such cases, the parties will wish to make appropriate provision in the license for the use of such associated or combined trademarks, as well as for the procedures to be followed by either party to obtain the registration of such marks (185).

357. Attention is drawn to the laws in certain countries governing the licensing of trademarks which provide that the license must contain a clause to the effect that the licensee has the option, should he deem it appropriate, to use his own trademark or publicity slogan together with the trademark or publicity slogan licensed to him, or separately, when manufacturing or marketing other products or rendering services other than those to be specifically distinguished by the trademark or publicity slogan covered by the license. In at least one other country, the law requires that a license concerning the use of a trademark originally registered abroad, or the holder of which is a foreign physical or legal person, must contain the obligation that the trademark must be used in conjunction with a trademark originally registered in the country and which is the property of the licensee. Further, under this law, the obligation to join the trademarks must be fulfilled within a specified period and the manner and other conditions of the use of the two trademarks are laid down.

6. *Use of Foreign Trademarks*

358. The laws referred to in paragraphs 352 and 357 are intended to correct certain abuses arising out of the licensing of trademarks registered locally but originating and first used or registered abroad. The licensor of such a foreign trademark may use the goodwill of its enterprise and the prestige of the trademark associated with that enterprise to penetrate the markets in the developing country. The licensor may register the trademark locally, may license its use to domestic concerns, allow its use for a period sufficient to promote a substantial market for the product bearing that trademark and then may refuse to renew the license in favor of the existing licensee. That licensee often has invested substantially in production and distribution facilities and then finds that, at the end of the term of the license, the license is not renewed. Instead, the licensor may proceed to export directly to the country of the licensee, or to operate through wholly owned or controlled enterprises, or to license another in the

(184) *Conditions of Use of Trademark*

The Licensee shall use the Trademark precisely as spelt or drawn by the Licensor and shall observe any reasonable directions given by the Licensor as to the color and size of the representation of the Trademark and the manner and disposition thereof on the Product or its containers.

(185) *Associated and Combined Trademarks*

The Licensee shall have the right to use the Trademark owned by the Licensor in connection with the Product (in combination or in association with its own trademark), provided the form and method of use shall be decided upon in advance by agreement between the Licensor and the Licensee.

country to use the trademark. In those cases, therefore, where during the term of the license a local trademark has been used together with the foreign trademark, it may be possible to alleviate to some extent the loss which otherwise results from the withdrawal of the foreign trademark, particularly if the local trademark has itself achieved a certain recognition and standing associated with the quality of the product and its manufacture by the licensee.

7. *Quality Control*

359. As indicated in paragraph 348, the question of the quality of a product bearing a licensed trademark is examined in Section J, paragraphs 335 to 344.

L. OTHER ASPECTS CONCERNING THE MARKETING PHASE

(Patent marking and indications of manufacture under license; product labeling and promotional activities; distribution channels; price and other resale terms; import of the product manufactured abroad by the licensor or technology supplier or by third persons)

1. *Patent Marking and Indications of Manufacture under a License*

360. Patent legislation in certain countries requires that the number of the granted patent or of the application for the patent appear on the product which is the subject of the invention covered by the patent or the patent application. Such "patent marking" clauses are designed to give notice of the rights of the patent owner. Similar provisions are found in other types of industrial property legislation, such as laws concerning the protection of industrial designs, appellations of origin, or indications of source or other commercial designations.

361. In view of the foregoing, the parties to a patent license may wish to include a provision on the subject of patent marking (186) and the patentee-licensor may wish to give specific instructions as to the location of the markings on the product (187).

362. Where the product manufactured is not covered by a patented invention or by a patented process, and even in cases where it is, the question arises whether an indication should appear on the product that it is "manufactured under license", followed by an identification of the licensor, or other words of similar import (188) (189). Such an indication can be helpful to the licensee or technology recipient in its marketing of the product as it carries with it an identification of the source of the technology used in the manufacture of the goods and takes advantage of the reputation and goodwill of the licensor or technology supplier as an aid in advertising and publicity activities for the promotion of the product.

363. Attention is directed to the laws in certain countries which seemingly do not permit the inclusion, in agreements concerning technology transfer transactions that do not entail the licensing of patents or trademarks, of provisions to the effect that the product is "manufactured under license" or other words of similar import which refer to industrial property rights.

2. *Product Labeling and Promotional Activities*

364. Apart from patent marking and indications on the product that it is manufactured under license from the licensor or under arrangements with the technology supplier, the parties may wish to consider

(186) *Marking; Indemnity*

The Licensee shall indemnify the Licensor against any contravention of local laws relating to the marking of the Product made according to the Patent or the Industrial Design or sold under the Trademark licensed hereunder.

(187) *Marking on the Product*

The Licensee shall, when and as requested in writing by the Licensor, mark the Product, where appropriate, with patent numbers and indications of source of manufacture.

(188) *Indication of Manufacture, Use or Sale Under License*

The Licensee may use the term "licensed by (specified name of the Licensor)" or its equivalent on or in connection with the manufacture, use, sale or other disposition of the Product in the manner and to the extent and on the conditions authorized and approved by the Licensor.

(189) See also note (190), *infra*.

the extent to which they should pursue in common various advertising or publicity activities or other measures designed to promote the sale of the product.

365. In the case of a product which is to bear the trademark of the licensor, product labeling and cooperation in devising appropriate advertising, including instruction books, folders, catalogues, blocks, cuts and other promotion material as well as arrangements for participating in sales promotion expenses, will normally be covered by provisions in the trademark license (190).

366. In other instances, product labeling and activities to promote the sales of the product may be subjects pertaining to marketing and commercial services and assistance which the parties to the technology transfer transaction will wish to consider in their negotiations.

3. *Distribution Channels*

367. The use by the licensee or technology recipient of the distribution channels developed abroad by the licensor or technology supplier can be an advantageous facility for both parties to the technology transfer transaction, particularly if the production capacity of the licensee or technology recipient is intended to, or does in fact, exceed the local demand.

368. The marketing skills and financial resources of the licensor or technology supplier, who may also be a potential buyer especially if the local production consists of raw materials, intermediate products or components, can be significant complements to the efforts of the licensee or technology recipient to realize the export potential of the product. At the same time the export production of the licensee or technology recipient can serve as an assured source of supply for the licensor or technology supplier in meeting demand for the product in other areas.

369. Export arrangements between the licensee or technology recipient and the licensor or technology supplier may take different forms: the former may appoint the latter as the exclusive distributor of the product for export and agree to sell to the latter the entire export production, or the former may give the latter an option to purchase all or a part of the export production, or the latter may agree, if requested by the former, to market all or part of the export production (191).

370. Such exclusive distributorship agreements or option agreements to supply or to purchase the export production of the licensee or technology recipient may include provisions which specify the territory of export sales, determine the amount of production to be made available for export, set the price at which the product will be sold, or regulate other terms of the export sale (192).

371. Attention is directed to the laws in certain countries governing the transfer of technology under which industrial property licenses or technology transfer agreements will not be approved if they contain provisions which require the licensee or technology recipient to sell the product exclusively to the licensor or technology supplier or to stipulated third persons, or to conclude exclusive sale or representation agreements in the national territory with the licensor or technology supplier, or to give the licensor or technology supplier an option to purchase all or part of the production of the licensee or technology recipient. Under such laws in one country, a license or agreement whereby the licensee or technology recipient agrees to sell all or part of the production to the licensor or technology supplier may be permitted if the price for the product is not lower than that prevailing on the international market.

(190) *Advertising and Other Promotion Material*

Each of the Parties hereto agrees to cooperate in the devising of appropriate advertisements, in the exchange of printing blocks and other items where they meet local requirements. Material supplied shall be invoiced at cost plus freight. Such advertisements shall from time to time carry statements making clear the Licensor is the proprietor and that the Licensee is the licensee of the Trademark.

(191) *Marketing of the Product by the Licensor at the Request of the Licensee*

The Licensor agrees to use its best efforts to market the Product, if requested by the Licensee, in (specified territory), at such prices, not lower than those prevailing on the interna-

tional market, and upon such other terms and conditions as may be agreed upon between the Licensor and the Licensee.

(192) *Marketing by the Licensor: Effect Where the Licensee May Obtain More Favorable Price*

In the event that the Licensor is requested to market the Product and if a more favorable price is available to the Licensee for the Product, then the Licensee shall so advise the Licensor. The Licensor shall notify the Licensee regarding the Licensor's intention to meet the more favorable price. In the absence of such notice, the Licensee shall market the said Product. As long as the Licensee is marketing the Product referred to above, it shall account to the Licensor on the basis of the more favorable price.

372. Other aspects of exclusive distributorship agreements or option agreements to supply or to purchase the product manufactured by the licensee or technology recipient are treated elsewhere in these explanatory notes. These include matters relating to the specification of the territory for sale (see Section D. 4, paragraphs 161 to 164), the exclusivity or non-exclusivity of the territory (see Section D. 5, paragraphs 165 to 185) or the volume of production (see Section J.6, paragraphs 343 and 344) and the price or other terms of the sale (see Section L.4, paragraphs 373 and 374).

4. *Price and Other Resale Terms*

373. In some technology transfer transactions, the parties may wish to stipulate in advance the terms upon which the product manufactured by the licensee or technology recipient is to be sold to third parties. In addition to the price, such terms could include the warranties, if any, as to the quality of the product which are to be given by each of the parties to third persons, particularly in the case where the product is to bear the trademark of the licensor or technology supplier, and the arrangements for after-sales service, including repair, maintenance and operation.

374. Attention is directed to the laws in certain countries controlling restrictive business practices or governing the transfer of technology whereby provisions in an industrial property license or technology transfer agreement may not be given effect if they stipulate the resale price of the product, payable by wholesalers or retailers or by the licensor or technology supplier, or which apply to third persons, to the detriment of their competitive position, different terms for the sale of equivalent goods.

5. *Import of the Product Manufactured Abroad by the Licensor or Technology Supplier or by Third Persons*

375. For a certain period, it may be necessary to prepare the domestic market to receive the product which is to be manufactured locally. In particular, before commencing production, there may be a need to bring about consumer awareness of the product or even to create a demand for the product. Further, in the case where similar goods are available locally, based on imports, efforts may be necessary to shift the preference of consumers from competing goods to their acceptance of the product in question. Where the product itself is not available locally, the product as manufactured abroad may have to be imported and an assessment made of the stage when local production will suffice to meet domestic demand.

376. Under these circumstances, the parties to the technology transfer transaction will wish to consider whether the licensor or technology supplier should be required to make available, at the request of the licensee or technology recipient, sufficient quantities of the product manufactured abroad by the licensor or technology supplier until such time as local production will suffice to meet domestic demand. In addition, the parties may wish to consider the measures which can be taken to ensure that once local production meets domestic demand, the same product, manufactured elsewhere by the licensor or technology supplier or by other licensees or technology recipients or by third persons, will not be imported in sufficient quantities or at prices which will injure, or threaten to injure, sales of the product manufactured locally.

377. As concerns the problem of the availability of the product to meet domestic demand pending full-scale operations by the licensee or technology supplier, a provision in the industrial property license or technology transfer agreement which obliges the licensor or technology supplier to supply the licensee or technology recipient with quantities of the product manufactured abroad, in amounts and at times to be specified by the latter, may prove useful in the initial stages of production and marketing, as the import of such products can be a means by which the licensee or technology recipient may ensure maximum exploitation of the domestic demand for the product.

378. On the other hand, measures to foreclose competition with the product manufactured locally by the import of the same or similar products manufactured abroad may be more difficult to devise or apply, and in some instances may not be given effect under the laws concerning industrial property, unfair competition or the transfer of technology.

379. Where, for example, the product which is the subject of the industrial property license or technology transfer agreement concluded with a licensee or technology recipient in country A is manufactured

abroad in country B, by the licensor or technology supplier (as distinct from another licensee or technology recipient in country B), a provision in the license or agreement that the licensor or technology supplier will not compete with the licensee or technology recipient in country A by importing the product into country A will most likely be given effect in country A. Such a provision in an industrial property license makes that license an exclusive one and the power to give such a license is normally regarded as within the rights conferred by the grant of a patent or within the protection accorded to trademarks or industrial designs. Moreover, a provision in a technology transfer agreement whereby the technology supplier agrees not to compete with the technology recipient would most likely also be given effect under the laws in certain countries controlling restrictive business practices or governing the transfer of technology.

380. A case to be distinguished from the foregoing is that where the product is manufactured abroad, not by the licensor or the technology supplier, but by another licensee or technology recipient in country B, and is then sought to be exported by that licensee or technology recipient to country A, or is manufactured or purchased in country B by a third person having no relationship with the licensor or technology supplier, for subsequent import into and sale in country A.

381. The problems arising when the licensor or technology supplier attempts to control the exports from country B of the product manufactured by a licensee or technology recipient in country B have been considered in another section of these explanatory notes (see Section D.5: Exclusivity and Non-Exclusivity of the Territory, paragraphs 165 to 185).

382. As concerns the measures which might be taken in country A to control the import into and sale in country A of the product manufactured and sold in country B, much depends on whether that product bears a trademark or not and, if it does, whether the trademark is the same or similar to the trademark on the product manufactured and sold in country A, as well as on the scope of protection accorded to trademark owners and to holders of patents under the industrial property laws in that country.

383. Where the product manufactured in country A and the product manufactured in country B bear identical trademarks, whether or not each is owned by the same person, or where the products bear similar trademarks, it may be possible for the licensee or technology recipient to prevent the importation of the product manufactured in country B, by claiming an infringement of the trademark recognized in country A or by invoking the laws concerning unfair competition, on the ground that the product manufactured in country B does not meet the quality standard set by the licensor or technology supplier for the product manufactured and sold in country A, or that the trademark on the imported product will cause confusion in the minds of the public in country A.

384. Where the product to be imported from country B does not bear a trademark or bears an identical or similar or different trademark compared with the trademark on the product manufactured in country A, but the laws concerning trade marks or unfair competition do not provide a remedy, the licensee or technology recipient in country A might be able to invoke whatever rights the licensor or technology supplier, i.e., the patentee (and, accordingly the licensee or technology recipient) may have under the patent laws of country A to prevent the importation into country A of products manufactured elsewhere which incorporate the invention or which are made by the process that is the subject of a patent granted in country A. Under the patent laws in most countries, the grant of the patent confers upon the patentee (and accordingly the licensee) the right to preclude the importation into the country of such products. Although the matter is not free from controversy, it would appear that this right to preclude importation extends even to products manufactured and sold abroad, for example in country B, which incorporate an invention or are made by a process that is the subject of a corresponding patent granted in country B, particularly where it can be shown that the patent granted in country A is being worked in country A.

385. It is possible, however, that for countries belonging to a regional economic community forming a common market, the right to preclude importation would not extend to products put on the market in any country member of the community in application of the principle of the free flow of goods within the common market.

386. In view of the foregoing, it may be in the interest of the parties to include in the license or the agreement a provision whereby, upon the request of the licensee or technology recipient, the licensor or

technology supplier agrees to take measures within its power to preclude the importation into the country of products manufactured abroad which are likely to compete with the product manufactured by the licensee or technology recipient.

387. It should be noted, however, that, in many instances, factors other than the scope of industrial property rights will play a role in regulating the trading conditions of imports from one country into another, for example the competitive price of the product, import duties, foreign exchange controls or other regulations in country A designed to ensure that products manufactured locally are purchased before resort may be had to products manufactured abroad.

M. MANAGEMENT SERVICES

(Types of management services; management measures prescribed by laws governing the transfer of technology)

388. The types of management services which might be offered by the licensor or technology supplier to the licensee or technology recipient are described in another section of these explanatory notes which deals with the various kinds of technical services and assistance which could be included in a technology transfer transaction (see Section H.6, paragraphs 313 and 314).

389. The purpose of this explanatory note is to draw attention to the laws in certain countries governing the transfer of technology that will have a bearing on the types of management measures which might otherwise be envisaged by the parties to the technology transfer transaction. Under these laws, industrial property licenses or technology transfer agreements will not be approved if they contain provisions which enable the licensor or technology supplier to control or to intervene in the management of the licensee or technology recipient or which require the latter to use on a permanent basis staff specified by the former.

N. COMPENSATION; CONSIDERATION; PRICE; REMUNERATION; ROYALTIES; FEES

(In general; concepts and terminology; lump-sum payment; royalties: based on the volume of production, on sales—gross selling price, net selling price and specific items figuring in its determination, fair market price, time of sale and remittance—or on profits, minimum royalties, decreasing royalties, choice of the basis for calculating royalties, lump-sum payment compared with royalties, lump-sum payment and royalties combined, payment of royalties “free of taxes” or “net of taxes”; fees for technical services and assistance related to the patent or trademark license or to the technical know-how agreement—cost of training, technical experts, technical services concerning capital goods; fees for management, planning, research and development services; indirect and non-monetary compensation or expense: income from related operations, dividends and value increase of financial participation, capitalization of the lump-sum payment or royalties, cost shifting or sharing measures, feed-back of technical information, rights in technological advances, acquisition of market data, cost reductions and savings to the licensee or technology recipient; maximum amount of the price or cost of the industrial property rights or the technology; separate pricing of the different elements of the technology)

1. *In General*

390. One of the most critical and complex issues to be negotiated between the prospective transferor and the potential transferee is the “price” or the “cost” of the industrial property rights to be acquired, whether outright or by license, and of the technology to be transferred.

391. The “price” or the “cost” is dependent upon a number of factors, including the nature of the industrial property rights and the technology and the relative bargaining power of the two parties. The prospective transferor usually makes a careful assessment in terms of value or the need for the particular technology, the alternative technologies available, the prospect of technological advances and the likely production and profitability of the potential transferee. The prospective transferor also makes detailed projections of production and consequent income flow from other potential licensees or technology recipients.

392. The potential transferee assesses the total payments that it is likely to make for a particular technology and for advances in that technology against the profitability of the enterprise over a period of time and also evaluates such payments in relation to costs of alternative technology or payments made with respect to similar transactions.

393. An analysis of the economic aspects of these price and cost factors is beyond the scope of this Guide. However, there are certain legal aspects of the issue that are relevant to the bargaining position of the potential transferee which can be pointed out in this Guide. These are essentially concerned with the various possible forms of payment for the transfer or use of industrial property rights and the acquisition of technology, the distinction among these forms, how they may be expressed in the industrial property license or technology transfer agreement, and what legal effect will be given to them under the applicable laws, especially the laws in certain countries governing the transfer of technology.

394. In this context, it should be noted at the outset that laws in certain countries governing the transfer of technology deal specifically with various aspects relating to the price and cost elements of technology, including the separate pricing of the different elements of the technology transfer transaction, the level and form of payments, the time period during which payments may be made and the effect to be given to payments by the technology transferee to the technology transferor when they are in a special relationship, to mention but a few. Each of these aspects, and others, are also treated in these explanatory notes.

2. *Concepts and Terminology*

395. One of the difficulties inherent in an examination of the subject of the "price" or the "cost" of industrial property rights or of technology is the choice of the terminology to be employed to describe the very concept of "price" or "cost" and their elements.

396. What the licensor or technology supplier receives and what the licensee or technology recipient gives for these rights or that technology may be thought of or expressed in a direct monetary sense. Thus, that which is to be received by the prospective transferor may be referred to as "compensation," "consideration," "income," "price," "remuneration," or "return," and that which is to be given by the potential transferee as "payments," "royalties," "fees," "service charges," "commissions" or "costs," to mention the more common expressions which are used, often not necessarily in the same sense or in the same manner in relation to the licensor or technology supplier or to the licensee or technology recipient as suggested in this paragraph.

397. In addition, the "price" or "cost" of industrial property rights or technology may be influenced by other factors of a monetary or non-monetary character, not expressed in the license or agreement, which nevertheless may result in income or expense either for the licensor or technology supplier or for the licensee or technology recipient.

398. The following paragraphs examine in detail the various forms of direct monetary compensation which find expression in the provisions of the industrial property license or agreement. Thereafter a brief reference is made to various measures or practices which may give rise indirectly to income or expense for one or the other of the parties to the technology transfer transaction.

3. *Direct Monetary Compensation: Lump-Sum Payment; Royalties; Fees*

399. Direct monetary compensation for industrial property rights or for technology may take different forms: (a) "lump-sum payment"—a precalculated amount to be paid once or in installments; (b) "royalties"—post-calculated, recurring payments, the amount of which is determined as a function of economic use or result (production units, service units, sales of the product, profits); (c) "fees"—compensation for services and assistance rendered by technical or professional experts, fixed at a specified amount or calculated per person and per period of service. In these explanatory notes, the term "remuneration" is used to apply to any one or more of these three forms.

400. The three forms of remuneration may be combined in a given industrial property license or technology transfer agreement (193) (194) (195) (196). In some instances, the lump-sum payment form may replace the system of royalties altogether (197), while in other instances the two might be combined one way or another, as where the licensee or technology recipient may elect to make a lump-sum payment in lieu of one form of royalties or another (198). In other instances, the licensee or technology

(193) *Remuneration: Patent License, Example 1*

In consideration of the Patent License granted hereunder by the Licensor to the Licensee, the Licensee agrees to:

(i) pay the Licensor a lump-sum amounting to (amount and designation of currency) within (number in words) (number in figures) days after validation of this Agreement by the competent Government Authorities of (specified country);

(ii) pay to the Licensor during the term of this License or for the duration of the Patents, whichever is earlier, royalties in the amount of [figures] % of the net selling price of the Product manufactured and sold in the Exclusive Territory for manufacture and sale by the Licensee and sold or otherwise disposed of in the Non-Exclusive Territory for sale to the extent to which, upon manufacture, the Product includes any invention claimed by the Patents or if, and to the extent to which, such Product includes or employs, when sold or otherwise disposed of, any invention claimed by any of the Patents.

(194) *Remuneration: Patent License, Example 2*

(a) In respect of the use by the Licensee of the Patents specified in the Patent Portfolio set forth in Schedule No. . . . , the Licensee agrees to pay to the Licensor during the term of this License or for the duration of the Patents, whichever is earlier, a sum representing either

(i) for the right to use any or all of the said Patents (whether used in fact or not), a flat rate representing (specified) percent of the aggregated Net Sales Price of the Product sold in (specified territory);

(ii) for the right to use selected groups of Patents during the time that in respect of each group there is a valid Patent subsisting and being used by the Licensee, including improvement patents, the separate rates for each such group as shown against the groups in Schedule No. . . . in respect of existing patents (and without increasing the rate for any group on account of an improvement patent being added) and applying the resultant percentage to the aggregated Net Sales Price of the Product sold in (specified territory).

(b) The selection of either of the rates provided for in (i) and (ii) above shall be at the option of the Licensee.

(c) The Licensee has, for ease of accountancy, requested the Licensor to grant the patent license at a flat rate for all the rights to the Patents notwithstanding that the Licensee may not be at all times using or exercising all such rights.

(d) The Licensee reserves the right to convert such flat rate payment into an obligation to pay at separate rates for each group of Patents according to the grouping shown in Schedule No. . . . , in each case for the duration of the Patents in each group respectively, and at a separate rate for the use of each group, according to actual use.

(e) The Licensee, if paying at the flat rate, shall be entitled to call for a list of all rates not already shown in Schedule No. . . . After receipt of the said group use rates the Licensee may opt for the aggregate rate of the sum of the group rates of selected patent groups listed by the Licensee in place of the flat rate provided he gives the Licensor (sixty (60)) days' notice in writing to expire on a quarter day of his intention to pay selected rates as from the expiration of the notice in place of the flat rate; and if paying at separate group rates he may give (sixty (60)) days' notice in writing to expire on a quarter day of his intention to pay at the flat rate.

(195) *Remuneration: Technical Information Related to Patent License*

In consideration of the Technical Information furnished by the Licensor to the Licensee hereunder, the Licensee shall com-

pensate the Licensor by paying to it for a period of (specified) or for the duration of the Patent License, whichever is earlier, the following amount:

(1) the sum of (specified amount in words and in figures) within (sixty (60)) days after the effective date of this Agreement; and

(2) royalties of (specified) percent (. . . %) of the Net Selling Price of each Product manufactured and sold, leased or otherwise disposed of by the Licensee.

(196) *Remuneration: Trademark License*

In consideration of the Trademark License granted hereunder, and:

(a) in respect of the provision of information and materials for the imparting of a full knowledge of the Standard of Quality, the Licensee shall pay to the Licensor a sum of (amount in figures and words);

(b) in respect of the provision of Technical Services and Assistance by engineers, specialists or experts of the Licensor to instruct personnel of the Licensee in the methods of the Licensor in achieving the Standard of Quality, the Licensee shall pay to the Licensor a sum sufficient to cover the relevant proportion of their salaries and other usual benefits paid to or received by such skilled persons having regard to the working time spent by them in such instructions and any travel, subsistence and other expenses where any such skilled person is required to travel to the facilities of the Licensee;

(c) in respect of the supervision of the Standard of Quality and inspection and testing of samples and of methods of manufacture, storage and packing, the Licensee shall pay to the Licensor during the term of this License or for the duration of the registration of the Trademark, whichever is earlier, [a sum of (amount in figures and words) per annum] [(specified) percent (. . . %) of the Net Selling Price of the Product sold by the Licensee in (specified territory)].

(197) *Remuneration: Lump-Sum Payments*

In consideration of the grant of the Industrial Property License, the supply of the Know-How and Technical Information and the provision of Technical Services and Assistance as well as of their respective covenants, the Parties hereto agree on the amount of (sum in figures and words) consisting of the following:

(i) Industrial Property License	_____
(ii) Know-How	_____
(iii) Technical Information	_____
(iv) Technical Services and Assistance	_____
	Total _____

(198) *Remuneration: Lump-Sum Payment in Lieu of Royalties*

(a) In lieu of paying the royalties pursuant to Article . . . (see notes (193), (194), (195), (196), *supra*), the Licensee, by so notifying the Licensor in writing [at any time] [prior to (specified date, e.g., the Start-Up-Date of the Plant)] may elect to acquire a fullypaid license to manufacture an unlimited amount of the Product by a cash royalty payment of (specified amount in words and figures). This payment may be made in (specified number) instalments.

(b) The Licensee shall be entitled to a credit, applicable towards payments for the fully-paid license to manufacture in respect of each year (or fraction of a year) for which running royalties shall have been paid pursuant to Article . . . (see notes (193), (194), (195), (196), *supra*), in an amount equal to (specified) percent (. . . %) of the running royalties previously paid for such year (or fraction of a year).

recipient may be given the opportunity to elect to pay royalties on production units rather than on sales (199). The fees for technical services and assistance may be determined separately, either stipulated in advance (200) or negotiated as rendered (see paragraphs 464 to 481).

401. It is to be noted, however, as will be indicated in more detail subsequently, that under the laws in certain countries governing the transfer of technology the various rights or elements of technology may have to be separately priced or valued and even made the subject of distinct licenses or agreements.

a. *Lump-Sum Payment*

402. The lump-sum amount may be paid, in the case of a transfer or assignment of industrial property rights, at the time of the transfer or assignment of industrial property rights or, in the case of an industrial property license or a technology transfer agreement, upon the conclusion of the license or agreement or shortly or sometime thereafter, either in a single payment or in a series of installment payments. The latter may be staggered in relation to certain events such as the execution of the license or the agreement, the delivery of certain technical information, etc.

403. The lump-sum payment is often made for the outright acquisition of industrial property rights, whether by sale or assignment, as well as in the case of the license of industrial property rights or the transfer of know-how, where the technology can be transferred all at once and the licensee or technology recipient can readily and fully absorb it. Such payment is made for the transfer of rights and know-how concerning technology which is less sophisticated and may be quite appropriate from the viewpoint of the licensee or technology transferee if a continuing supply of technical information concerning technological advances or the marketing of the product or technical services and assistance in support of the licensee or technology recipient is not required of the licensor or technology supplier. For example, a lump-sum payment may be made to obtain the rights in a patented product, or to a patented process or to sets of drawings, specifications or other technical information that are sufficient in themselves to enable the licensee or technology recipient to manufacture and sell certain products.

404. Under the laws in certain countries governing the transfer of technology, recourse to the form of lump-sum payment for the acquisition of industrial property rights or technology is subject to certain conditions. Under one of these laws, it is provided that, subject to the authorization of a specified governmental unit, a lump-sum amount may be paid if it is determined in advance on the basis of the estimated volume of sales during the period of the license or agreement and provided, further, that the amount is within the maximum limits which may be established for the sector, activity or product. Under another of these laws, a lump-sum payment is permitted in the case of the acquisition of patent rights by transfer or purchase and for certain types of technical services and assistance (see paragraphs 478 to 480); otherwise, the remuneration must take the form of royalties in the case of a patent or trademark license or an agreement for the supply of know-how to be applied in the production of

(199) *Remuneration: Election by Licensee to Calculate Royalties on Unit of Production Rather than on the Net Selling Price*

In lieu of paying the royalties pursuant to Article ... (see notes (193), (194), (195), (196), *supra*), in terms of a (specified figure) % of the net selling price of the Product, the Licensee, by notifying the Licensor in writing [at any time] [prior to (specified date)], may elect to pay for (specified period to be determined by the Licensor and the Licensee), as royalties, [the sum of (stated figure)] [a sum to be agreed upon between the Licensor and Licensee] per Product manufactured and sold as indicated in the said Article.

(200) *Remuneration: Technical Services and Assistance*

(a) In consideration of the Technical Services and Assistance provided under this Agreement, the Transferee agrees to pay the Transferor, in accordance with the terms and conditions of this Agreement, and subject to adjustments in such sum as provided for in the General Conditions hereof, the Basic Technical Services and Assistance Agreement Price of (amount in words and figures), which sum more particularly is composed for the various items of the work as follows:

(i) Training services performed in (country of the Transferor)	_____
(ii) Training services performed in (country of the Transferee)	_____
(iii) Engineering services performed in (country of the Transferor)	_____
(iv) Engineering services performed in (specified country of the Transferee)	_____
(v) Installation and testing services performed in (specified country of the Transferee)	_____
(vi) Management services	_____
Total	_____

(b) The Basic Technical Services and Assistance Agreement Price shall include an amount satisfactory to pay all wage rates and fringe benefits applicable on the date of signature of this Agreement; provided that, if after such date, any such rate or benefit is increased, or any benefit is added, the Basic Technical Services and Assistance Agreement Price shall be correspondingly increased.

consumer goods or materials in general or in the manufacture of machinery, equipment or other capital goods. In the latter cases, however, although a lump-sum amount may be fixed for the technical information initially supplied, it must represent an advance on the royalty remuneration.

b. *Royalties*

405. As indicated previously, royalties are post-calculated, recurring payments, the amount of which is determined as a function of economic use or result. It is in this sense that the word "royalties" or "royalty payment" is employed in this Guide (see paragraph 399).

406. In order to establish this functional relationship between the recurring amounts and the economic use or result, the provision in the license or agreement may refer to the volume of production, to the sales price of the product that is manufactured incorporating the technology (or, in the case of the trademark license, that is sold bearing the trademark) or to the profits of the licensee or technology recipient.

407. As noted previously, under the laws in certain countries governing the transfer of technology, royalties are the only form of remuneration which may be provided for in specified types of industrial property licenses or technology transfer agreements. In particular, these laws require that the royalties be ascertained either on a percentage basis or as a fixed value per product unit, but in either case imposed or related to the sales price, or, when applicable, also linked to the profits earned from the sales of the product.

(1) *Production*

408. Royalties may be linked to the unit or volume of production and calculated as a fixed monetary amount per product manufactured, or per weight (per ton or kilogram) or volume (per gallon or liter) or proportionate to some other indicator of output (for example, the class of power generation).

409. Expressing royalties as a fixed amount per unit of production, rather than as a function of the sales price of the product, may be particularly appropriate in cases where the domestic sales price of the product is expected to be very high as compared with the international sales price of the product or where prices are likely to increase over the long-run due to inflationary factors or where the price of the product is a function of abnormal supply and demand factors or where an increase in the price of the product is not necessarily a function of an increase in the use of the technology.

410. Royalties so calculated are independent of the cost, sales or profit developments of the product or output concerned. For each unit of production a stipulated sum is paid which is not adaptable to costs, prices and currency variations. However, care must be taken in arriving at the stipulated sum to ensure that the licensor or technology supplier does not include the price of items supplied by it or which do not relate to the technology to be supplied (see paragraph 422). Otherwise, the most important problems are to define exactly the reference measure of the unit of production and to provide measures against inactivity of the licensee or technology recipient.

411. Under the laws in certain countries governing the transfer of technology, pursuant to which specified types of licenses or agreements must provide for royalties imposed on or related to the sales price of the product that is the subject of the patent or trademark license or that results from the application of the technology, royalties calculated on the basis of the volume of production would appear not to be permitted. Under the laws of one country, however, royalties calculated on the basis of a fixed amount per unit of production will be permitted where the domestic price of the product is expected to be very high compared with the international sales price of the product.

(2) *Sales*

412. Royalties linked to sales are paid only when the product is actually sold. This type of linkage ordinarily makes no distinction between sales with profit and sales without profit, so that, when determining the amount of the royalties, full consideration is required to make sure that a wholesome balance of profit is left to the licensee or technology recipient after payment of royalties.

413. The "ad valorem" royalty method is most commonly used to determine the royalty rate on the basis of the amount of sales. By this method, the royalty rate is set, for example, at X percent of the price at which the product is sold.

414. It should be noted, however, that the specification of a low royalty rate to be applied to a high volume of sales may in fact have been the result of initially calculating the price of the technology in terms of a given volume of production.

415. Moreover, as indicated previously, the alternative of expressing royalties as a fixed amount per unit of production may be more appropriate in certain cases (see paragraphs 409 and 411).

416. Where royalties are linked to sales, the criterion of royalty calculation is important. That criterion may be either the gross selling price or the net selling price or, in certain cases, the fair market price.

(a) *Gross Selling Price*

417. Royalties based on the gross selling price leave less room for doubt since they can be ascertained by the review and inspection of the books. To the licensor or technology supplier this method is quite favorable while for the licensee or technology recipient it contains a disadvantage since it is based not only on the price of the portion of the product manufactured with the technology supplied by the licensor or technology supplier but also on the price of that portion of the product which is not.

418. In connection with this method of calculating royalties, the parties may find it advisable to define the term "gross selling price," as its meaning can vary from country to country. In addition, consideration should be given to whether the production made possible by sub-licenses of the licensee or technology recipient is to be included in the calculation.

419. Under the laws in certain countries governing the transfer of technology, the gross selling price is understood to mean the invoice value at the plant of the product actually sold or of the services produced. However, as will be noted subsequently, these laws require that royalties be calculated on the net selling price, which is arrived at after deducting the cost or value of specified items or other expenses from the gross selling price.

(b) *Net Selling Price*

420. The net selling price is used in the calculation of royalties to eliminate disadvantages to the licensee or technology recipient if the sales price includes items unrelated to the technology, or items which, although so related, are to be supplied by the licensor or technology supplier or others for which a profit will already have been gained at the expense of the licensee or technology recipient. The net selling price therefore consists of the sales price minus the cost or value or the expenses of certain items (201). Which items should figure in this subtraction from the sales price depends upon the character of the product, the sales practices for the product, and the impact of the laws in certain countries governing the transfer of technology which lay down criteria in this respect.

421. The apparent rationale of the subtraction process is to arrive at a calculation of royalties on the basis of the value added in the manufacture of the product or the application of the process by the licensee or technology recipient using the technology supplied by the licensor or technology supplier.

422. Among the specific items that the parties may have to negotiate on or to include in the subtraction are the following:

- (a) packing expenses (possibly set at a percentage of the product price);
- (b) insurance premiums;
- (c) transport expenses (possibly set at a percentage of the product price);
- (d) export and import duties, customs tariffs;
- (e) turnover or sales taxes;
- (f) ordinary commercial discounts;
- (g) returned merchandise;
- (h) installation expenses at the place where the product is used;

(201) See note (47), *supra*.

- (i) the price of raw materials, intermediate goods, parts or other components, including standard bought-out components, supplied by the licensor or technology supplier or by persons in a special relationship to the licensor or technology supplier or by others;
- (j) the value of the equipment input for the part of the product in respect of which the technology supplied by the licensor or technology supplier is not used;
- (k) the portion of the price of the product which reflects the royalties;
- (l) fees paid by the licensee or technology recipient for the maintenance in force of patents or trademarks.

423. In fixing royalties related to production, either in terms of total production or per unit produced, allowance may also have to be made for the cost or value of one or more of the items referred to above.

424. Under the laws in certain countries governing the transfer of technology, the term "net selling price" is defined in such a way as to exclude many, if not most, of the items listed in paragraph 422; however these laws do vary, particularly as concerns subtraction of the price or value of inputs that are acquired locally or from third persons who are not in a special relationship with the licensor or technology supplier.

(c) *Fair Market Price*

425. Where the licensee or technology recipient makes sales of the product at an unreasonably low price to a third person in a special relationship, if that sales price is used to calculate royalties, the licensor or technology supplier suffers a disadvantage. To avoid this, the parties may stipulate that in such cases the calculation of royalties will be on the basis of the fair market price of the product (202).

426. The fair market price may then be defined by a provision in the license or the agreement in terms of one or more of the following: (1) the uncontrolled price method, i.e., the price offered to, or bid by, a purchaser of the product who is not in a special relationship with the licensee or technology recipient or the price agreed to in the sale to such a purchaser, or the price of a comparable product in a sale made between parties neither of whom is in a special relationship with the licensee or technology recipient or with the licensor or technology supplier (203); (2) the resale price method, i.e., the price obtained on resale of the product by the purchaser of the licensee or technology recipient, with an adjustment to that price by a reduction of the mark-up of that purchaser-seller in that resale; (3) the cost-plus mark-up method, i.e., the cost of the production of the product of the licensee or technology recipient, to which is added a specified per cent of that cost or a fixed sum as the profit of the licensee or technology recipient on that sale.

427. In this context, attention is drawn to the laws in certain countries governing the transfer of technology which, although they do not contain a provision defining the term "fair market price" for the purpose of calculating royalties, do refer to the "current quoted international market price" or to words of similar import as the standard or method of pricing in connection with the purchase from the licensor or technology supplier of capital goods, raw materials or services (see Section I, paragraph 330); these laws may thereby give an indication of the standard expected in the calculation of royalties on the sales price of the product, particularly on sales of the product to the licensor or technology supplier or to third persons in a special relationship with the licensor or technology supplier.

(d) *Time of Sales and Remittance*

428. *Time of sale.* In the case of royalties linked to sales, the question arises as to "when" the licensee or technology recipient has sold the product. Sales activity usually extends over a period from the placing of the order, through manufacture, delivery and billing for payment, to the receipt of payment from the purchaser of the product. As the length of this period varies, the determination of the time of sale may present difficulties.

(202) See note (47), *supra*, and note (203), *infra*. Compare also notes (168) and (191), *supra*.

price shall be estimated as if a normal arm's length sale to a third person had been made at the time of such disposal.

(203) *Price of Product Not Sold but Otherwise Disposed of*

In respect of any Product which is not sold loose but incorporated, or which is otherwise disposed of, the list or invoice

429. Although the time of sale may be left to the judgement of the licensee or technology recipient, there are cases where the time of sale is specified in the license or agreement, for example, a sale may be considered to have been made when the product is shipped pursuant to a contract of sale or accepted by a purchaser in the absence of a contract (204). As for products in inventory at the time the license or agreement expires or terminates, it is usual to specify that the product is deemed to have been sold at that time (205) (see also Section T.4, paragraph 600).

430. *Time of remittance.* The time of remittance of royalties is specified in the license or agreement. Usually the period for which the sales are to be calculated is specified as quarterly, semi-annual or annual. The total amount of the royalties in each such period is then calculated. The last day of the period is defined and remittance is to be made within a specified time after the expiration of the period, for example, within thirty or sixty days after March 31, the end of a quarter (see Section O.1, paragraph 497).

(3) Profits

431. If royalties are linked to the profits of the enterprise of the licensee or technology recipient, no royalty payment is due until the enterprise gains a profit from the sales of the product.

432. It may occur that sales have to be made at a limited profit or even at a loss, particularly in the first few years of production when both local skills and the market are being developed. However, the licensor or technology supplier may be reluctant to accept such an arrangement unless it is directly responsible for the management of the enterprise and is satisfied with the prospects for profits (which is typically the case of a joint venture) or the licensee or technology recipient is in a very strong bargaining position as it may be if it has control over scarce raw materials. The licensee or technology recipient must, nevertheless, take into account the projected profitability in assessing the reasonableness of the payments for the technology that are being negotiated.

433. In view of the fact that the concept of "profit" may be ambiguous and contested, the parties may wish to define the term in the license or agreement and to provide special measures for the determination and verification of the profits of the licensee or technology recipient.

(4) Minimum Royalties

434. A minimum royalty arrangement involves payment of a certain amount independent of whether the licensee or technology recipient has produced a given quantity of the product or has achieved given sales or profits. When the amount of royalties calculated on the actual production, sales or profits falls short of the amount of the minimum royalties, the licensee or technology recipient must cover the difference.

435. Minimum royalty arrangements should be distinguished, however, from the commitment to pay a specified amount, fixed in advance, in the event of the failure by the licensee or technology recipient to comply with agreed performances.

436. Minimum royalty arrangements are particularly likely in exclusive licenses in that the licensor or technology supplier wants to have a measure of security as it is precluded from granting further licenses and is dependent upon the production and marketing abilities of the licensee or technology recipient.

437. There are cases where the royalty calculated on production, sales, or profits decreases because of unforeseen developments, such as the appearance of a competitive product, a fall in demand, or

(204) *Time of Sale of Product*

A sale is considered to have been made when the Product is shipped pursuant to a contract of sale or accepted by a purchaser in the absence of a contract.

(205) *Product Deemed as Sold on Expiration or Termination of Agreement*

(a) Upon the expiration or sooner termination of this Agreement, any of the Product in stock and not sold by the Licensee

shall be deemed as sold on the day such expiration or sooner termination becomes effective.

(b) Royalties shall be payable upon all Products manufactured prior to but remaining unsold at the date of the expiration of the [designated] Patent [No. . . .] and shall be calculated and paid in the manner and at times as provided in Article(s) . . . (see notes (218) and (219), *infra*).

difficulties in production operations or sales efforts. In that event, unless the amount of the minimum royalties has been determined on the basis of a carefully studied demand estimate, the licensee or technology recipient may suffer the disadvantage of excessive payment. To protect against this, the minimum royalties may be set at not more than a given percentage of the predicted royalties or be limited to a fixed amount over and above the actual royalties. Further, it is usual to fix minimum royalties according to a gradually increasing scale which assumes that in the starting period a lower production, sales or profit will be realized than in the subsequent years of the duration of the license or agreement.

438. In addition, in some instances, the payment of minimum royalties may be regarded as down payments or advances to be credited against royalties. Actual payment of royalties is not made until the aggregate of royalties exceeds the amount of the down payment or advance. Before that time, only the calculated amount of royalties for each payment period is reported. Actual royalty payments begin for the payment period in which the aggregate exceeds the amount of the down payment or advance.

439. Other possible measures as part of a minimum royalty arrangement might include the termination of the license or agreement or its conversion from an exclusive to a non-exclusive one, upon the failure, either automatically or at the option of the licensor or technology supplier, to meet the minimum royalty amount, or the continuation of the license or agreement, at the option of the licensee or the technology recipient, once the minimum royalty amount is met.

440. As indicated, minimum royalty arrangements may provide a certain measure of security to the licensor or technology supplier. They also tend to encourage the licensee or technology recipient to work the patent or to exploit the technology or to make sales of the product bearing the licensed trademark. However, in the case where the licensor or technology supplier is an equity participant in a joint venture with the licensee or technology recipient, it may be argued that the remuneration received by the licensor or technology supplier should be a direct reflection of the success or failure of the joint venture for which it is at least partly responsible, and that minimum royalties should not, therefore, be adopted.

441. Under the laws in certain countries governing the transfer of technology, where payment of the price of the technology is linked to production, sales or profit, a minimum royalty arrangement will not be approved.

(5) *Decreasing Royalties*

442. A provision may be included in the license or agreement for progressively decreasing royalties based on the number of units produced or sold: the greater the number, the smaller the royalties. This practice may not be ideal where the licensor or technology supplier is the foreign partner in a joint venture or is to assist in sales efforts in so far as it may not encourage maximum efforts to expand after a certain sales or production level has been reached. In addition, such a practice may have the effect of a minimum royalty arrangement.

443. Under the laws in one country governing the transfer of technology, it is provided that in the case of an agreement for the supply of know-how required for the manufacture of capital goods and for the related technical services and assistance, the remuneration is to decrease over the permissible period of the agreement so as to allow a greater participation of local engineering services.

(6) *Maximum Royalties*

444. A maximum royalty arrangement relieves the licensee or technology recipient of the necessity to pay the excess when the amount of the royalties based on production, sales or profits exceeds a specified amount. Thus the excess over the maximum amount which may result from the sales efforts of the licensee or technology recipient accrues as income to it. This arrangement safeguards the interests of the licensee or technology recipient, particularly where market expansion is unrelated to the technology supplied or to sales support from the licensor or technology supplier or where, over the long run, there is likely to be a constant increase in the sales price.

445. Under the laws of one country governing the transfer of technology, it is provided that in the case of an agreement for the supply of know-how intended to be applied for the production of consumer

goods or materials in general, when the amount of royalty payments reach a fixed ceiling before the agreement expires or if the payments have not reached the estimated amount when the agreement expires, no further payments need to be made.

(7) *Choice of the Basis for Calculating Royalties*

446. It is difficult to indicate which basis (production, sales, profits) for calculating royalties is best for the licensee or the technology recipient in a developing country. Some of the points to be considered have already been suggested above in the course of the description of the various type of royalty arrangements. Other points which merit consideration are the following.

447. A royalty arrangement based on the net selling price is probably better in most instances involving joint ventures than one based on either production or the gross selling price because it encourages the licensor or technology supplier to do everything possible to maximize sales, and therefore the profits of the joint venture enterprise, and does not burden the joint venture enterprise with payments when products are manufactured but not sold.

448. When one aim of the business relationship is to encourage exports from the country of the licensee or technology recipient and the licensor or technology supplier is making export markets available or is assisting in export sales or doing both, a strong bargaining point for the licensee or technology recipient may be to pay differential royalties for export sales. Higher royalties paid on the net selling price of exported products, as opposed to products sold domestically, may encourage more active cooperation by the licensor or technology supplier in developing foreign markets or in securing the rights initially for the licensee or the technology recipient to exploit such markets.

c. *Lump-Sum Payment Compared with Royalties*

449. The lump-sum payment is characterized by the fact that the obligation to pay is fulfilled immediately or fairly shortly. Further, the parties do not have to make continuous accounts or control the calculation or the remittance, as in the case of royalties.

450. The lump-sum payment, when compared with royalties, may or may not have certain tax advantages. The continuous payment of royalties is considered to be income to the licensor or technology supplier from the viewpoint of taxation and, as such, royalties are subject to income taxes. The single lump-sum payment, and even the lump-sum payable in installments, may be considered the counterpart to, or the financial result of, a sale or purchase operation, with the assignment or transfer of the industrial property rights and the supply of the know-how considered analogous to the sale of commercial goods. The licensor or technology supplier will also have to pay taxes on the lump-sum payment. The single lump-sum payment, however, may be subject to a different (often higher) tax rate than income in the form of royalties. Under some tax laws, it may be possible to alleviate the higher or progressive rates on the lump-sum payment if it is split into installments and paid over several tax years and thus subject to lower tax rates.

451. Where a more or less single performance is the counter-value, the lump-sum payment may lead to results economically more justified between the parties. If, for example, unexpected high sales are reached, especially under the influence of monetary fluctuations or other economic circumstances, the system of royalties leads to unexpected and unjustified returns to the licensor or technology supplier. Upon the payment of a lump-sum, the licensor or technology supplier would receive only the counter-value of its single performance which it thought was justified at the time the agreement was concluded.

452. On the other hand, the lump-sum payment may also entail risk for the licensee or technology recipient if production or sales of the product lag behind expectation and if the lump-sum payment is disproportional to the economic value of the performance of the licensor or technology supplier.

d. *Lump-Sum Payment and Royalties Combined*

453. In many cases, the remuneration for industrial property rights or know-how is a combination of a lump-sum payment and royalties (206).

(206) See notes (193), (195) and (196), *supra*.

454. The lump-sum payment is often treated as an initial payment for disclosing information that enables the potential licensee or technology recipient to evaluate the technology (see Section G.3: Disclosure of Know-How, particularly paragraphs 259 to 265). The licensor or technology supplier frequently views this payment as the initial remuneration for basic research and development in respect of technology. The actual initial payment varies a great deal from transaction to transaction and may range from a small sum for the delivery of initial technical information to a very large amount for sophisticated technology that has required much research and development. In some instances, the initial lump-sum payment may be viewed as a minimum payment or regarded as a down payment or advance against royalties (see paragraph 438). Further, the licensee or technology recipient may be given the opportunity to make an additional lump-sum payment, stipulated in advance or negotiated at the time of the election to make that payment, in lieu of royalties, with a credit against the payment of the royalties already made (207).

455. In negotiating remuneration in the form of a combined lump-sum payment and royalties, the licensee or technology recipient will need to evaluate carefully the total outflow and incidence of the payments that may be likely for various combinations. The burden of interest charges, for example, is important in determining the size of the lump-sum figure, while projections of production estimates and of cash-flow from sales during the period of the license or agreement are essential in assessing the percentage rate of royalties.

e. Payments of Royalties "Free of Tax" or "Net of Taxes"

456. An important question relating to payments for the acquisition of industrial property rights or for technology is that of the taxes imposed in the country of the licensee or technology recipient as well as in the country of the licensor or technology supplier.

457. As pointed out elsewhere in these explanatory notes (see Section O.7: Settlement of Payment—Taxation, paragraphs 511 to 527), the question of liability for taxation will be affected by the income tax applicable in each country and by the existence of tax-treaty relations between the country of the licensor or technology supplier and the country of the licensee or technology recipient.

458. In the context of calculating the amount of royalties, the effect of provisions for payment "free of tax" or "net of taxes" imposed in the country of the licensee or technology recipient should be considered. A similar consideration is in order as concerns the calculation of the lump-sum payment or the fees for technical services and assistance. The following example involving royalties illustrates the income tax problems and the impact of such provisions.

459. If a "net" royalty payment of \$1.00 is stipulated and the country of the licensee or technology recipient imposes a 15% withholding tax on all royalty payments to foreigners or non-residents, the licensee or technology recipient will have to pay total royalties of approximately \$1.18 to achieve the net royalty payment of \$1.00. Assuming that the licensor or technology supplier is taxed at 50% on its royalty income in its own country but can take advantage of a foreign tax credit provision, the licensor or technology supplier would receive 59 cents net after all taxes, with 18 cents (i.e., 15% of \$1.18) in taxes having been paid in the country of the licensee or technology recipient and 41 cents (i.e., \$1.18 minus 50% of \$1.18 = \$0.59 minus \$0.18 tax credit = \$0.41) in the country of the licensor or technology supplier. On the other hand, if a "gross" royalty payment rather than a "net" royalty payment of \$1.00 is specified, the licensor or technology supplier will receive net after all taxes 50 cents, with 15 cents (i.e., 15% of \$1.00) in taxes having been paid in the country of the licensee or technology recipient and 35 cents (i.e., \$1.00 minus 50% of \$1.00 = \$0.50 minus \$0.15 tax credit = \$0.35) in the country of the licensor or technology supplier.

460. Thus, under the net royalty formula, the licensor or technology supplier in effect receives an additional 9 cents, whereas the licensee or technology recipient pays 18 cents more than under the "gross" royalty formula, the difference being absorbed by the tax paid in the respective countries (3 cents in one and 6 cents in the other); however, an amount of 6 cents is in effect borne by the licensee or technology recipient.

(207) See note (198), *supra*, and paragraph 400.

461. Under the net royalty formula, the government of the country of the licensee or technology recipient still receives a greater amount of withholding tax (18 cents as opposed to 15 cents under the gross royalty formula) and the government of the country of the licensor or technology supplier also receives a greater amount of tax (41 cents as opposed to 35 cents under the gross royalty formula). For the licensee or technology recipient, however, the adoption of the net royalty formula means not only the payment of a higher royalty amount (\$1.18 as opposed to \$1.15 under the gross royalty formula) to the licensor or technology supplier but also in effect a tax payment (i.e., 6 cents—the difference between 41 cents and 35 cents) to the latter's government. It may also mean that the licensee or technology recipient will need to obtain a higher amount of foreign exchange, thus increasing its expense and imposing an additional burden on the foreign exchange reserves of its country.

462. To avoid, or at least in part protect against this result, some tax arrangements between the parties provide for the licensor or technology supplier to reimburse to the licensee or technology recipient a proportion of the amount of the tax, if any, which the former claims as a credit against, or as a deduction from income in the calculation of, the tax in the country of the licensor or technology supplier on royalties received by it. Under this arrangement, the governments in the respective countries still receive the same amount of tax. One may argue, however, that such a reimbursement by the licensor or technology supplier should result in a disallowance of the tax credit or deduction and that it should be regarded as "income" to the licensee or technology recipient and subject to tax in one country or the other.

463. As noted in another section of these explanatory notes (Section O.7, paragraphs 511 to 527), under the laws in certain countries governing the transfer of technology, the license or agreement must stipulate which party is liable for the payment of income taxes. Under the laws of some other countries, a provision in the license or the agreement providing for payments "free of tax" or "net of taxes" is not permitted, at least not, according to the laws in one country, in licenses or agreements negotiated with units of the Government in that country.

f. *Fees for Technical Services and Assistance*

(1) *Fees for Technical Services and Assistance Related to the Patent or Trademark License or to the Technical Know-How Agreement*

(a) *In General*

464. Specific technical services and assistance, to be provided by the licensor or technology supplier, may be necessary in connection with the transfer of the technology or the marketing of the product under a trademark, and may have to be paid for separately.

465. The fees for specific technical services and assistance related to a patent or trademark license or a technical know-how agreement may be examined under three main headings: (a) the cost of training programs for the personnel of the licensee or technology recipients; (b) fees for technical services and assistance to be rendered by technical experts of the licensor or technology supplier to the licensee or technology recipient at the latter's industrial plant during the period of the license or agreement; (c) fees for technical services and assistance which concern machinery, equipment or other capital goods needed in the utilization of the technology at the industrial plant of the licensee or technology recipient (208).

(b) *Cost of Training*

466. The various aspects of training are treated in another section of these explanatory notes (see Section H.2, paragraphs 304 to 309). As concerns the cost of training, the question that arises is which party should bear the expenses of the training programs which may be established either at the industrial plant of the licensee or technology recipient or at the facilities of the licensor or technology supplier.

467. According to one view, since on-the-job training is one of the means of learning the know-how which the licensor or technology supplier has agreed to supply to the licensee or technology recipient, it is the former who should bear all the expenses. According to another view, it is felt that the salaries and

(208) See note (200), *supra*.

the travel, living and local transportation expenses of instructors, their teaching materials and equipment, whether in the country of the licensor or technology supplier or in the country of the licensee or technology recipient, should be borne by the former, whereas, if the personnel of the latter are to receive on-the-job training at the facilities of the licensor or technology supplier, their salaries, travel and living expenses should be borne by the licensee or technology recipient (209). On the other hand, if special training is requested by the licensee or technology recipient, the expenses of preparations to meet the request, including the procurement of instructional aids and materials, are to be borne by the licensee or technology recipient (210).

468. It may be recalled that under the laws in certain countries governing the transfer of technology a patent license or an agreement for the supply of know-how to be applied in the production of consumer goods or materials, or in the manufacture of capital goods, must contain a provision for the training of specialized technical personnel of the licensee or technology recipient (see Section H.2, paragraph 309). It seems to be implicit in the laws of some of these countries that, apart from the remuneration to be paid for the patent license or technical know-how agreement, there is to be no separate payment by the licensee or technology recipient for such training services or assistance, while under the laws in some other such countries, remuneration may be claimed for the services rendered by technicians in the execution of the training program for the personnel of the licensee or technology supplier. Under these laws, criteria are laid down to estimate the value of the remuneration and the form of payment is specified (see paragraph 471 for the details of such criteria and form of payment).

(c) *Technical Experts Provided by the Licensor or Technology Supplier*

469. The licensee or technology recipient may have need of technical services and assistance by technical experts from the licensor or technology supplier. Such services and assistance may be needed at the industrial plant of the licensee or technology recipient in connection with the actual working of the patented invention or patented process, or the application of know-how supplied or the marketing of the product bearing the licensed trademark (211).

470. The license or the agreement will normally specify the number of experts, the duration of their work and the cost of each category of personnel. The licensee or technology recipient may be asked to pay the normal wage received by such experts in their own country, to pay the travel expenses and the living expenses or to provide housing and other facilities at the local site (212). The principal issues in establishing the remuneration of such technical experts is usually the fixing of their daily rate, the currency of payment, and the duration of their services. Other matters which need to be resolved include the availability of accommodation and medical care or insurance.

471. Under the laws in certain countries governing the transfer of technology, the estimate of the total value of the remuneration of technical experts payable to the licensor or technology supplier in foreign currency must be based on certain criteria, including the number of experts and an individual per diem rate—excluding living expenses—which must be in line with the standards usually adopted in their country of origin and assessed on the basis of the specialization and category of each expert and the nature of his services. Further, the estimate must be based on an assessment of the period judged to be sufficient for the rendering of the technical services and assistance. In addition, it should be noted that these laws provide that the living expenses of the technical experts in the country, which must be estimated on an individual basis, are to be paid in local currency. In addition, certain of these laws also specify the form of payment of the fees for the services of the technical experts, for instance, the billing must be at the rate the services are actually rendered and by means of an invoice, issued by the licensor or technology supplier, duly itemized and legalized.

(d) *Technical Services Concerning Capital Goods Needed in the Industrial Plant of the Licensee or Technology Recipient*

472. The technical services may also be required concerning the machinery, equipment or other capital goods needed in the utilization of the technology at the industrial plant of the licensee or technology recipient.

(209) See note (164), *supra*. (211) See note (167), *supra*.

(210) See note (167), *supra*. (212) See note (167), *supra*.

473. These services may relate to the preparation of drawings, specifications, tender papers and other documentation concerning the purchase of such capital goods. This documentation is separate from the technical information supplied as part of the patent license or technical know-how agreement. The documentation can normally be prepared at the facilities of the licensor or technology supplier (213).

474. The technical services may concern also the installation, operation and maintenance of the machinery, equipment or other capital goods at the industrial plant of the licensee or technology recipient. In that event, the services will be rendered by technical and professional experts sent to the industrial plant of the licensee or technology recipient (214).

475. The technical services may sometimes be a part of an integrated technology transfer transaction that includes an industrial property license or technical know-how agreement and an agreement to render specialized design and engineering or consulting services through technical and professional experts concerning the purchase, installation, operation and maintenance of machinery, equipment or other capital goods needed for construction of the industrial plant (see Section H.3, paragraph 310, and Section I, paragraphs 318 to 330) in which the technology is to be utilized.

476. Charges for technical services which are performed at the facilities of the licensor or technology supplier are usually made on an hourly or daily basis or the licensor or technology supplier may agree to make available a number of hours of such services for a specified fee (215).

477. The issues involved in establishing the remuneration of technical and professional experts sent to the industrial plant of the licensee or technology recipient have been dealt with above (see paragraph 471).

478. The laws in certain countries governing the transfer of technology deal specifically with the establishment of the remuneration and the form of payment for technical services required in connection with the installation, assembly and operation of machinery, equipment or other capital goods, or for specialized technical or professional engineering and consulting services, or for the hiring of experts to carry out certain specialized professional work for a fixed period (see Section H.3, 4, 5, paragraphs 310 to 317).

479. Under these laws, the remuneration must be established as a fixed price, on the basis of the proven cost, taking into account the nature of the services, the degree of importance of the project, its relation to the total sum of the investment and the criteria and standards usually adopted in such cases. Payment of the amount established must be effected in installments during the execution and delivery of the services, on the presentation of an invoice which is to specify the services rendered and the corresponding amount. Payment must also be made conditional upon the complete and appropriate use of the services and the obtaining of tangible results derived from their execution.

480. As concerns the component of technical services and assistance to be provided by the experts of the licensor or technology supplier, it would appear that, under the laws of some of these countries, the remuneration of the services of such experts must be separately estimated and that the form of payment specified for such services must be complied with in the manner indicated above (see paragraph 471).

(2) *Fees for Management, Planning, Research and Development Services*

481. The types of management, planning, research and development services are dealt with in detail elsewhere in these explanatory notes (see Section H.6 and 7, paragraphs 313 to 317). It should be noted that the laws in certain countries governing the transfer of technology also lay down the criteria to be applied in establishing the fees for such services and specify the form of their payment, in the manner previously indicated (see paragraphs 479 and 480).

(213) See note (166), *supra*.

(214) See note (167), *supra*.

(215) See note (166), *supra*.

4. *Indirect and Non-Monetary Compensation or Expense*

482. There may be certain elements in a given technology transfer transaction which give rise directly or indirectly to additional income to the licensor or technology supplier or which may either result in an increase in the cost of the industrial property rights or the technology or reduce those costs as far as concerns the licensee or technology recipient. These are briefly described in the following paragraphs.

a. *Income from Related Operations*

483. The licensor or technology supplier may receive income from various operations, such as commissions on the sales of the product made on behalf of the licensee or technology recipient through the distribution channels of the licensor or technology supplier, profits from the sale of the product supplied to the latter under exclusive purchase arrangements, profits from the sale to the licensee or technology recipient of related products which complete its marketing program, profits from the sale to the licensee or technology recipient of raw materials, intermediate goods, parts or other components, and rentals from machinery, equipment or other capital goods leased by the licensor or technology supplier to the licensee or technology recipient.

b. *Dividends and Value Increase of Financial Participation; Capitalization of the Lump-Sum Payment or the Royalties*

484. If the licensor or technology supplier assumes a financial participation in the enterprise of the licensee or technology recipient or if they enter into a joint venture, the licensor or technology supplier will obtain, in the event of successful commercial operations, dividends from the financial participation. If an essential part of the commercial operations depends upon the industrial property rights or technology of the licensor or technology supplier, there may be a direct dependency between the amount of the royalties and the amount of the dividends: the higher the royalties are, the lower the dividends will be, and vice versa. The degree of participation and financial and tax factors may dictate the relevant amount to be assigned to each and the formation of reserves or the holding back of profits, which may lead to an increase in the value of the financial participation.

485. In this context, attention is directed to the laws in certain countries governing the transfer of technology which treat as profits payments in respect of the price of industrial property rights or technology made between a subsidiary and its parent, or between subsidiaries, or where there exists economic unity or community of interests between the parties, or where effective technical, administrative, financial and commercial management of the technology transferee is exercised by the technology transferor, or where the technology transferor supplies raw materials or intermediate products used in the process in an amount equal to more than a specified percentage of the total cost of the product. Some of these laws also provide that in such cases the lump-sum payment or royalties may neither be treated as a contribution to capital nor constitute shares in the profits or in the capital of the enterprise of the licensee or technology recipient nor be deducted for the purpose of calculating the tax on its income.

486. Under the laws in certain other countries governing the transfer of technology, although royalties may be paid by the licensee or technology recipient to the licensor or technology supplier even where the latter has a financial participation in the former, the amount of the royalty payments must be reduced substantially in the event that the licensor or technology supplier has a majority participation in the licensee or technology recipient; in addition, ordinarily royalty payments by a wholly owned subsidiary to its foreign parent company are not permitted.

c. *Cost Shifting or Sharing Measures*

487. Certain cost shifting or sharing measures, for example, the expenses in maintaining or defending rights under the patent or the trademark, that are adopted may have the effect of reducing the expenses of the licensor or technology supplier and increasing the cost to the licensee or technology recipient of the technology transfer transaction.

d. *Feed-Back of Technical Information; Rights in Technological Advances*

488. The technical know-how of the licensee or technology recipient which is to be turned over to the licensor or technology supplier can also constitute a form of income to the latter. The terms and conditions for the feed-back of technical information with respect to improvements, developments or

new technology and the acquisition of rights with respect to such technological advances are examined in another section of these explanatory notes (see Section F, paragraphs 216 to 237).

e. *Acquisition of Market Data*

489. The licensor or technology supplier may benefit from data provided by the licensee or technology recipient concerning the marketing of the product in the local area, including new sales promotion techniques, which may prove useful to the marketing of the product in other areas.

f. *Cost Reductions and Savings to the Licensee or Technology Recipient*

490. Some elements of a given technology transfer transaction may have the effect of reducing the operating expenses of the licensee or technology recipient or otherwise lead to savings on the part of the technology transferee.

491. Mention may be made of such measures as the utilization by the licensee or technology recipient of the channels of sales distribution of the licensor or technology supplier, the use without payment of the trademark of the licensor or technology supplier, the access of the licensee or technology recipient to information concerning improvements to existing inventions, or developments in know-how, or new inventions of the licensor or technology supplier or rights in respect of such technological advances, and the opportunity to benefit from the marketing information and other technical services and assistance of the licensor or technology supplier.

5. *Maximum Amount of the Price or Cost of the Industrial Property Rights or the Technology*

492. The general question of determining the price or cost of the industrial property rights or the technology as well as the elements of the price or cost and hence the amount of the lump-sum payment, the royalties or the fees for technical services and assistance has been alluded to at the outset of this Section (paragraphs 390 to 394). The more particular problem posed here is that of the maximum price or cost of such rights or technology.

493. It should be noted that the laws in certain countries governing the transfer of technology also control the price of industrial property rights or technology.

494. Under the laws of some of these countries, the license or the agreement will not be approved where the price or consideration is greater than the benefits that will be derived from the technology to be acquired or constitutes an unjustified burden on the national economy. In some other countries, a designated governmental unit may establish by sector, activity or product, maximum amounts in respect of the price to be paid or consideration to be given by licensees or technology recipients. Under the laws of one such country, where maximum amounts have not been so established, special approval is required of the license or agreement if the price exceeds the estimated net value of sales by a specified amount. Under the laws of other such countries, the royalties agreed to must fall within certain percentage ranges fixed according to industry. In still others, the price must have been established by the parties taking into account specified parameters. In at least one other country, approval of a license or agreement is given initially only for a specified quantity of production and in the event that production exceeds that quantity, prior approval must be obtained as regards the terms of payment of royalties in respect of the extra production.

6. *Separate Pricing of the Different Elements of the Technology*

495. The question arises as to the extent to which in any given technology transfer transaction the different elements of the technology can or must be distinguished and separately priced (216). The problem is particularly acute in the case of a license covering a number of patents in the same field or relating to a complex product or process. For some of the patents, either individually or as a group or as a sub-group, it may be possible or practicable—while for others it may not—to assign a separate price or to know whether they are indispensable or not (217). Diverse views have been expressed on this

(216) See notes (197) and (200), *supra*, and paragraph 523.

(217) See note (194), *supra*.

issue, from the standpoint of both legal, commercial and economic considerations and the impact of such integrated transactions or patent licenses on the transfer of technology to developing countries.

496. In this context, attention is directed to the laws in certain countries governing the transfer of technology that provide that the price of the different elements of technology covered by an industrial property license or technology transfer agreement must be separately stated, in cases where itemization is feasible, or that require the different elements of technology to be made the subject of distinct licenses or agreements, with the price of each separately given and subject to criteria established by the laws. Further, it should be noted that, under the laws in some of these countries, the license or agreement may not include a provision for the payment of royalties for patents or trademarks which are not used, or are not likely to be used, or which have no economic value.

O. SETTLEMENT OF PAYMENT

(Reporting; maintenance, inspection and review of records; designation of the currency of the obligation and of payment; currency of the obligation, currency of payment; rate of exchange; foreign exchange controls; designation of instrumentalities for remittance and receipt of payment; effect of new or changed laws on payment)

1. Reporting

497. Where royalties are to be paid, a method of reporting the volume of production, sales or profits and the amount of the royalties determined thereon is provided for in the license or agreement (218). The period of such production, sales or profits is defined and the times in relation to that period, when the royalties calculated are to be paid, is stated (219) (see also Section N.3, paragraph 430).

2. Maintenance, Inspection and Review of Records

498. Provision is usually also made in the license or agreement for the licensee or technology recipient to keep records (220) and for the licensor or technology supplier to be given an opportunity to review the records so that the accuracy of royalties calculated by the licensee or technology recipient can be assessed. In particular, the account books, files and other records of the licensee or the technology recipient showing the number of units produced, the amount of the sales or the profits may have to be made available to the licensor or technology supplier or to its designated representatives (221) or to a third person, such as an accountant or an auditor (222), selected by common consent (223). A provision in the license or the agreement will state the purpose of the inspection, the records to be examined, the

(218) Report by the Licensee

Within 30 days after the 31st of March, the 30th of June, the 30th of September and the 31st of December of each year this Agreement is in force the Licensee undertakes to submit to the Licensor or such person or body as the Licensor may designate from time to time a statement in writing, duly certified by the auditors of the Licensee, setting out the quantities and the net turnover in (the designated currency) of the Product manufactured by the Licensee and sold or leased or otherwise disposed of in the preceding quarter as well as the amounts due by the Licensee thereon under Article ... (see notes (193), (194), (195), (196), (199), *supra*).

(219) Time of Remittance

The Licensee shall pay to the Licensor in (specified country) and (designated currency) within (sixty (60)) days after the dates of 31st March, 30th June, 30th September, and 31st December, referred to in Article ... (see note (218), *supra*), the royalties due thereunder.

(220) Licensee to Keep Records

The Licensee shall keep true and accurate files and books of account or other records containing all the data reasonably required for the full computation and verification of the amounts to be paid and the information to be given in the statements provided for herein.

(221) Review of Records by Licensor or by Third Person

The Licensee shall, during the usual business hours, permit the Licensor or the Licensor's representative to inspect the same adequately for the sole purpose of determining the amounts payable by the Licensee. In lieu of inspection by the Licensor's representative, the Licensee shall have the option to have such inspection made at the Licensor's expense by independent chartered accountants mutually acceptable to the Parties hereto.

(222) Review of Records by Independent Auditor

The Licensee shall permit an independent auditor appointed for that purpose by the Licensor and the Licensee to inspect the records of the Licensee relative to this Agreement for the purpose of the statements referred to in Article ... (see note (218), *supra*) at any reasonable time during the period this Agreement remains in force or within six months after the termination thereof. Such inspection shall be completed at the Licensor's own expense provided that if any discrepancy or error exceeding three percent of the money actually due is found in connection with the computation, the cost of such inspection shall be borne by the Licensee.

(223) See notes (221) and (222), *supra*.

time when and place where that examination may be made and the allocation of the expenses of the inspection (224), and provide for the certification of the net selling price (225).

3. *Designation of the Currency of the Obligation and of Payment*

499. It is necessary to distinguish two aspects of the question of currency designation. The first concerns the determination of the currency which will serve as the measure of the obligation to pay, and the second relates to the choice of the currency in which payments will be made to discharge that obligation. The currency of obligation and the currency of payment may be one and the same but they need not necessarily be, and in fact may be different, as is often the case in an international commercial transaction.

(a) *Currency of the Obligation*

500. As concerns the first aspect—the currency of the obligation—in the case of the lump-sum payment, the stated currency may be the currency of either the country of the licensor or technology supplier, or the country of the licensee or technology recipient or a third country (226).

501. In the case of royalties, if the royalty amount is linked to the volume of production, and does not depend on the value of the unit produced, the currency chosen may be either that of the country where production takes place or that of another country. If the royalty amount is linked to sales, the currency chosen may be that of the country where sales take place. If export sales are likely, more than one currency may be chosen—the currency of the country of the licensee or technology recipient where production and domestic sales occur, and the currency or currencies of the country or countries where the export sales are made. If royalties are linked to the profits of the enterprise of the licensee or technology recipient, then the currency of the country where that enterprise is legally organized may be chosen.

502. As concerns fees for technical services and assistance, the determination will most likely be between the currency of the country of the expert and the currency of the country where the services are performed; however, in the case of services performed by experts sent to the country of the licensee or technology recipient, the amount of the fees will normally be determined in the currency of the country of the expert, with payment in whole or in part in the currency of that country and the remainder, if any, plus the portion attributable to living expenses and other facilities in the country of the licensee or technology recipient, paid in the currency of the country of the licensee or technology recipient (227).

503. Under the laws in certain countries governing the transfer of technology, it is provided that the currency of the obligation must be the currency of the country of the licensee or technology recipient, though remittance abroad may be made in the equivalent foreign currency; whereas, under the laws in some other of these countries, though the currency of the obligation may be expressed in a foreign currency at least the expenses connected with the maintenance of experts in the country of the licensee or technology recipient must be paid in the currency of that country (see Section N.3, paragraph 471).

(b) *Currency of Payment*

504. The second aspect of the question of currency designation is the choice of the currency in which the amount of the obligation to pay will be converted for the purpose of payment, i.e., the transmittal of funds. As indicated, this currency may be the same as the currency of obligation, but more often than not it is another currency.

(224) See notes (221) and (222), *supra*.

(225) *Certification of Net Selling Price*

The Licensee's Net Selling Price shall be certified by auditors appointed by both Parties.

(226) *Designation of Currency for Calculation of Amount of Payment of Royalty*

The amount of payment due by the Licensee to the Licensor pursuant to the provisions of Article ... (see note (218), *supra*) shall be calculated in (designated currency of the country of the Licensee).

(227) *Payments in Local Currency*

To the extent that the Licensor can pay its costs under Article ... (see note (167), *supra*) in (designated currency of the country of the Licensee), the Licensor agrees to accept payment from the Licensee in the said currency.

505. Many factors may play a role in the choice of the currency of payment, such as whether the currency of obligation can be utilized in the country of that currency by the licensor or technology supplier, the inflation rate in the country of the currency of obligation, the stability in the international money markets of that currency in relation to other currencies, the existence of currency exchange controls in the country of the currency of obligation or where the income of the licensee or technology recipient is generated, and the applicability of tax laws which may provide special benefits to one party or the other.

(c) *Rate of Exchange*

506. In the event that the currency of payment chosen differs from the currency of obligation, the rate of conversion will normally figure as a provision in the license or agreement (228). Any one of a number of different exchange rates may be selected; for example, the official rate established by national or international monetary authorities, or an average of the said rates or a commercial rate, such as the telegraphic transfer selling rate or other rate of a specified domestic or foreign commercial bank (229).

4. *Foreign Exchange Controls*

507. The laws in certain countries governing foreign exchange transactions require approval by the central bank or other financial authority of measures for the payment of financial obligations in a foreign currency.

508. Further, under the laws in certain countries governing the transfer of technology, remittances abroad required under the provisions of an industrial property license or technology transfer agreement may only be effected in accordance with the foreign exchange regulations laid down by the financial authority. In some of these countries, the laws state that authorization of the remittances by the financial authority is a prerequisite of the license or agreement taking effect. Under the laws in some other of these countries, approval by the government responsible for the administration of the laws governing the transfer of technology of the license or the agreement is necessary before the authorization of the financial authority may be given.

5. *Designation of Instrumentalities for Remittance and Receipt of Payment*

509. In view of the possible relations which may prevail between the licensor or technology supplier and domestic and foreign banking facilities and the relations of those facilities with the licensee or technology recipient or its banking facilities, a variety of factors may determine which intermediaries are selected for the remittance or receipt of funds. The licensor or technology supplier, as well as the licensee or technology recipient, may have certain preferences as to which banking facilities should be used as intermediaries for the transmission of funds. Regardless of whose preferences prevail, the

(228) *Payment in Foreign Currency*

(a) Except as provided in Article ... (see note (227), *supra*) and subject to Article ... (see note (223), *supra*), all payments to the Licensor referred to in Article ... (see notes (193) to (200), *infra*), shall be effected by transfer of (designated currency of country of the Licensor) or—at the option of the Licensor—of other currency, convertible in the sense of Article VIII of the Articles of Agreement of the International Monetary Fund, to the credit of the Licensor at such Bank as the Licensor may designate, from time to time, in writing, and at the rate of exchange specified in Article ... (see note (229), *infra*).

(b) Each payment shall constitute a valid discharge in so far as it is made available, irrevocably, for the Licensor's free disposal in (specified country).

(229) *Rate of Exchange*

The exchange rate shall be:

Example 1

As regards fixed amounts referred to in the Agreement, the official cross rate computed on the basis of the par value quo-

tation in terms of US Dollars of the International Monetary Fund or its successor organization on the day of transfer.

Example 2

As regards the royalty calculated percentage-wise, the average of the highest and lowest official exchange rates occurring during the calendar month preceding the date of the statement referred to in Article ... (see note (218), *supra*).

Example 3

As regards the royalty calculated percentage-wise, the telegraphic transfer selling rate of (designated currency of the country of the Licensor) (or other convertible currency as the case may be) in terms of (designated currency of the country of the Licensee) for payments of current transactions on the day of transfer.

Example 4

The rate of exchange prevailing at a first-class foreign exchange bank in (country of the Licensee) on the day such payment is made.

parties may wish to specify in the license or the agreement the instrumentalities selected for the remittance as well as for the receipt of funds in payment of financial obligations under the license or agreement and to specify at what point of time and at what place in the course of the transmission of the funds a given obligation to pay is considered discharged (230).

6. *Effect of New or Changed Laws on Payment*

510. It may be desirable to include in the license or agreement provisions stating the measures to be taken in the event that new laws are enacted or changes in existing laws are adopted that affect the method, place, or other elements of the payment by the licensee or technology recipient. Among the measures which could be provided for are: notification by the licensee or technology recipient of such new laws or changes (231), the requirement that the licensor or technology supplier make proposals for revision of the payment element in question (232), the possibility for the licensee or technology recipient to discharge its obligation to pay through other specified means, as by a deposit of funds in a bank in its country (233), and the termination of the license or the agreement by the licensor or technology supplier if, as a result of the new laws, circumstances arise which increase substantially the risks in the settlement of payment (234).

7. *Taxation*

(Concepts of income tax jurisdiction; turnover taxes; withholding of taxes; effect of double taxation treaties; characterization of the remuneration as "income" and rate of taxation; determination of the source of the income and separate itemization and valuation; payment of taxes, tax credits, and allocation of payments and credits; special questions where the licensor and the licensee are in a particular relationship)

511. The question of taxes and, in particular, the taxes on the remuneration generated by a technology transfer transaction between the licensor or technology supplier of one country and its licensee or technology recipient in another country will be of special interest to the parties, inasmuch as that remuneration may be subject to income tax by different countries.

512. The tax laws of a country may provide that the income tax shall fall on all taxable income of enterprises organized under the laws of that country, from whatever source derived. Under such tax laws, the place of legal organization is selected as the controlling test of income tax jurisdiction.

513. In other countries, the concept of income tax jurisdiction is one of management and control; it matters not where the enterprise is organized, but where its board of directors and management sits. Consequently, in such countries an enterprise organized under the laws of country A, whose board of directors and management operates in country B, will be taxed by the Government of country B on the income of the enterprise and will also be subject to income tax by the Government of country A.

514. In some other countries, another concept of income tax jurisdiction is employed, that of the income tax imposed on the basis of territoriality. Under that concept, amounts earned in the country are taxed by the Government of that country and amounts spent therein are allowed as a deduction

(230) See note (228), paragraph (a), *supra*.

(231) *Method of Payment: Effect of New or Changed Laws*

(a) The Licensee shall notify the Licensor in writing immediately if any new laws, regulations or changes to existing laws or regulations are adopted or imposed by the Government of (specified country) which, for any reason whatsoever, relate to the method of payment specified under the provisions of Article ... (see note (228), *supra*) hereof. (b) The Licensor shall, within (thirty (30) days) from receipt of such notification, advise the Licensee in writing of any revision of the method of payment under the provisions of Article ... (see note (228), *supra*) which the Licensor deems necessary. Upon agreement between the Licensor and the Licensee as to such revision, if any, this Agreement shall then be amended to reflect such revision.

(232) See note (231), paragraph (b), *supra*, and note (257), *infra*.

(233) *Method of Payment: Effect of Change in Exchange Control Law*

In the event that by virtue of any law, regulation or order the Licensee is unable to make the payments falling due in Article ... (see note (228), *supra*), payment into a bank in the country of the Licensee to the credit of the Licensor (or to two persons or to (specified legal entity) as trustees of the Licensor or such other arrangements as may be permitted) shall be a good discharge of the Licensee's liability to make such payments but it shall also be ground for the Licensor to give written notice terminating this Agreement (specified number) days after giving notice of such ground.

(234) See note (264), *infra*.

against that tax, but amounts spent outside the country cannot be used as a deduction against the tax on amounts earned in the country.

515. In other countries, yet another theory of income taxation is employed. They follow the doctrine of economic connection, which results in a pro rata tax being assessed by such a country on transactions taking place both within and without that country.

516. In the case of a transaction relating to the transfer of technology to developing countries, at least two countries are usually involved: the country in which the licensee or technology recipient, using the technology of the licensor or technology supplier, applies the process or manufactures, uses or sells the product (and perhaps another country where the product is also sold), and the country (or countries) under whose laws the enterprise of the licensor or technology supplier is organized or in which its place of business is located.

517. In the absence of tax treaties, the remuneration received by the licensor or technology supplier may be subject to income taxation in the country where the enterprise of the licensor or technology supplier is organized under the income tax rate at such place as well as in the country of the source of the remuneration under the income tax rate at that place.

518. In addition to the taxation of the remuneration as income, several countries of source impose other types of taxes, for instance the turnover tax or the value added tax. Further, the tax authorities of the country of source normally require that the licensee or technology recipient withhold the taxes payable by the licensor or technology supplier.

519. In order to avoid double taxation, some countries have concluded tax treaties exempting certain kinds of income from taxation by one of the two countries involved, or at least giving credit for the tax paid in the country of source on the income in question. These tax treaties are usually referred to as double taxation treaties.

520. In some cases, the double taxation treaties provide that the income will be taxed solely in the country where the enterprise of the recipient of the income is organized. In other cases, they provide that the income will be taxed solely in the country of the source of the remuneration. If the recipient whose enterprise is organized in one country receives income from doing business in another by way of a permanent establishment in that country, such double taxation treaties usually provide that the income will be taxed in the country where the permanent establishment is. The term "permanent establishment" is usually defined in such treaties, and although the definitions vary somewhat from treaty to treaty, it usually extends to having a fixed place of business in the country in question. If the licensor or technology supplier does not have operations which amount to a permanent establishment in the country in question, the remuneration will usually be exempt from income taxation in that country.

521. Under the national tax laws and the double taxation treaties, a number of problems arise. The first is the characterization of the remuneration as "income" or a particular kind of "income" which may be subject to a different rate than other kinds. Thus, the sale of industrial property rights and the transfer of know-how for a lump-sum payment or installment payments not dependent upon the extent of use of the rights or the technology may be regarded as the sale of capital assets, to be taxed as income only to the extent the remuneration received exceeds the cost of the asset. That income may in turn be taxed at a rate different (higher or lower) than remuneration which is to be paid periodically and dependent upon the extent of use of the rights or the technology. The different rates at which one kind of income rather than another is taxed may influence the parties' determination of the type of technology transfer transaction and the method of remuneration.

522. Secondly, there is the problem of determining the "source" of the income. The source of the income in the case of the sale of industrial property rights may be regarded as the country where the title passes (e.g., the country where the assignment or transfer instrument is executed or the country where the rights are registered and where an assignment must also be registered), while in the case of the supply of know-how to be paid for without reference to the extent of use, the place where the technical information is delivered or the skills or professional expertise are rendered may be regarded as the source. On the other hand, where an industrial property license is involved or where know-how is supplied against remuneration dependent upon the extent of use, as, for instance, the volume of production or sales, the place of the production or of the sales may be regarded as the source.

523. In order to take advantage of source rules under national tax laws and treaties, and thus minimize the perils of double taxation, the licensor or the technology supplier may prefer that certain performances on its part be separately itemized and valued and the place of performance indicated. Such a provision is often helpful also to the government authorities in the country of the licensee or technology recipient which are concerned with not only tax matters but other questions under laws governing the transfer of technology where a breakdown of the value of the technology transfer transaction is relevant or may even be required (see paragraph 496).

524. A third problem concerns the payment of taxes, the claiming of tax credits, and the allocation of the burden of these payments and the benefits of the credits as between the parties to the technology transfer transaction. If a tax on the remuneration is to be paid at the source, e.g., the place where manufacture or sale occurs, the licensor or technology supplier who under the tax law of that place must bear and is liable for the payment of that tax may prefer, for administrative purposes and convenience, that the tax be paid on its behalf by the licensee or technology recipient and that the latter should submit evidence of that payment to the former together with a reflection of such payment in the statement of account concerning remuneration and in the remittance of payments (235). In some instances, the laws of the country of the licensee or technology recipient may require that the tax applicable to the remuneration be withheld and paid to the government of that country. Evidence of such payment is helpful to the licensor or technology supplier not only in its relations with that government but also in claiming a credit (or a deduction against taxable income) when calculating the tax due by it to the government of the country under whose laws its enterprise is organized and all the income of that enterprise, from whatever source derived, is subject to tax.

525. Where such a credit or deduction is permitted (and even in cases where it is not), the licensor or technology supplier may attempt to obtain from the licensee or technology recipient the commitment that the claimed remuneration to be paid to the former will be free of tax, i.e., an attempt to shift the burden of the liability for the tax, as well as the burden of payment, to the latter. In such cases, the licensee or technology recipient is asked either to make an additional remittance in the amount equivalent to the tax or to increase the amount of the remittance initially so that the amount less the tax equals the claimed remuneration. To the licensee or technology recipient this means an increased payment burden to the extent of the tax paid; however, this might subsequently be reduced under a formula which contemplates the refund by the licensor or technology supplier of the tax so paid by the licensee or technology recipient to the extent that the tax is utilizable by the former as a credit, or as a deduction from taxable income, in calculating the tax imposed by the government of the licensor or technology supplier on the income of its enterprise which has its source in the country of the licensee or technology recipient (see the illustration in Section N.3, paragraph 459).

526. Another problem arises out of the special tax questions between a licensor and a licensee where the relationship takes the form of parent and subsidiary or they are otherwise associated through common ownership or control or financial interest. Payments by such licensees to such licensors may be regarded under the income tax laws of the country of the licensor as income to the licensor which is to be taxed at different rates (i.e., higher) or subject to other special rules and, under the laws applicable in the country of the licensee, such payments by the licensee may not be permissible deductions in calculating the tax on the income of the licensee.

527. Attention is directed to the laws of certain countries governing the transfer of technology which require that the parties allocate the responsibility for the payment of income tax due in the country of the licensee or technology recipient or which do not give effect to agreements that contain a provision calling for remuneration to be paid after deduction of tax whereas in the country of the recipient the remuneration is treated as a payment subject to tax.

(235) *Income Tax*

The Licensor shall bear the income tax to be levied under the law of (country of the Licensee) on the income of the Licensor arising under this Agreement. In the event that the Licensee deducts such tax from the amount of the income to be remitted to the Licensor, the Licensee shall send to the Licensor, in due course, a tax certificate showing the payment of such tax.

P. MOST-FAVORABLE TERMS AND CONDITIONS

(Discriminatory treatment, abuse of dominant position or other prejudicial action where one licensee or technology recipient is given more favorable terms and conditions; merits of provisions on most-favorable terms and conditions; advantage of such provisions where technology is in a state of development or where competition in the same market is likely; requirement that the licensee or technology recipient be informed of subsequently concluded licenses or agreements)

1. *In General*

528. Where the licensor grants a license for the same industrial property rights to more than one licensee or the technology supplier provides equivalent know-how to more than one technology recipient, the question arises whether, if the terms and conditions under the subsequent license or agreement (or under the modification of an earlier one) are more favorable than those under the earlier license or agreement, the latter should benefit by these terms and conditions and, if so, to what extent and in what manner.

2. *Application of Laws Against Unfair Competition or Controlling Restrictive Business Practices*

529. The first problem which arises concerning this question is a matter of the application of laws against unfair competition or controlling restrictive business practices which might be invoked by the earlier licensee or technology recipient who claims discriminatory treatment, or abuse of dominant position or some other prejudicial action by the licensor or technology supplier.

530. When it becomes desirable to grant a license for the same rights or supply equivalent know-how to a number of licensees or technology recipients, each of whom will utilize it to a different extent and are to pay different royalties, and to avoid a claim of discriminatory treatment, equitable rates might be established amongst them according to an independent standard, as, for example, in terms of a ratio dependent upon the gross national product of their respective countries.

3. *Scope and Application of the Most-Favorable Terms and Conditions Provision*

531. The second problem concerns the scope and application of the most-favorable terms and conditions provision which may be included in the earlier license or the agreement.

532. The essence of a most-favorable terms and conditions provision is to oblige the licensor or technology supplier to grant to the earlier licensee or technology recipient the more favorable terms and conditions accorded to the later licensee or technology recipient.

533. The most-favorable terms and conditions provision might apply to the whole of the license or the agreement, or it might apply to parts of it, for example, to the amount of the royalties or their duration, territories of sale, the period of the license or agreement, or other specified terms and conditions (236).

(236) *Most Favorable Terms and Conditions*

(a) If, under similar and substantially the same terms and conditions as contained in this Agreement, a license or agreement is concluded by the Licensor with any third person in (specified country (countries)) in respect of the terms and conditions of [this Agreement] [the Articles on royalty rates] on more favorable terms and conditions than those of this Agreement, the Licensee shall be entitled to have the terms and conditions of [this Agreement] [the Articles on royalty rates] modified as of the earlier date on which such other person conducts operations under such favorable terms and conditions, to such extent that the same shall be as favorable as those granted to such third person, but only for so long as such terms and conditions shall be applicable to such third person.

(b) Provided, however, that the Licensee shall not be entitled to such more favorable terms and conditions referred to in paragraph (a) above, without accepting any less favorable terms and conditions that may be in the said Agreement, and also provided that such lower terms and conditions shall not entitle the Licensee to any refund or abatement of royalties paid or accrued prior to the aforesaid earlier date.

(c) For the purpose of paragraph (b) above, the royalty rate granted to another Licensee shall be deemed to be the actual rate so granted plus the amount of any allowance or reduction made to such other Licensee in connection therewith in respect of any rights or other valuable consideration, passing to the Licensor [and or its related enterprises] from such other Licensee, as consideration in whole or in part for the license granted [the know-how supplied] to such other Licensee by the Licensor.

(d) Provided, furthermore, that the foregoing provisions of paragraphs (b) and (c) above shall not apply in respect of any cross license that may be entered into by the Licensor.

(e) The Licensor shall inform the Licensee of the terms and conditions of any license covering the Patent(s) or of any agreement covering the Know-How and of the terms and conditions of any such license or agreement for [specified countries] [those countries to be agreed by the Parties] [in respect of which the terms and conditions are, or appear to be, more favorable than the terms and conditions of this Agreement].

4. *Merits of a Most-Favorable Terms and Conditions Provision*

534. The merit of a most-favorable terms and conditions provision in a license or agreement is debatable. Effective implementation of such a provision presupposes knowledge of the terms and conditions under other licenses or agreements or access to information about those which contain more favorable terms and conditions. In the absence of assurances of such information by the licensor or technology supplier or the existence of governmental machinery to assist in obtaining such information, it may be difficult to invoke such a provision. In addition, such a most-favorable terms and conditions provision can be applied only if the licenses or agreements in question are similar as concerns their type, the rights in question, the technology supplied, the market, the method of remuneration, duration, and other factors. Further, in many cases it may be difficult to determine which terms or conditions are more favorable, particularly if the license or agreement is the result of a number of interdependent elements or is part of an integrated technology transfer transaction. Finally, there is the vexing issue whether the first licensee or technology recipient must accept the less-favorable terms and conditions of the second license or agreement as a condition of the entitlement to the more favorable (237).

535. Despite these obstacles, it may be advisable for the licensee or technology recipient to insist on the inclusion of a most-favorable terms and conditions clause, particularly if it is among the first to deal with the licensor or technology supplier and the technology is to be further developed or there is a likelihood of competition with other licensees or technology recipients in the same market. The licensor or technology supplier should also be required under that clause to inform the licensee or technology recipient of subsequently concluded licenses or agreements covering the same or similar technology as that to be supplied to the technology recipient and of the terms and conditions of such licenses and agreements for at least those countries which may be specified or agreed to by the parties or for which the circumstances are similar to those of the country of the licensee or technology recipient or in respect of which the terms and conditions are, or appear to be, more favorable than those in the license or agreement concluded with the licensee or technology recipient (238).

536. It should be noted that, under the laws in certain countries governing the transfer of technology, an industrial property license or technology transfer agreement will not be approved unless it contains a provision by which, if the licensor or technology supplier grants more favorable terms and conditions to another licensee or technology recipient, these terms will be automatically extended to the first licensee or technology recipient.

Q. RIGHTS OF RELATED ENTERPRISES; TRANSFER AND ASSIGNMENT; SUB-LICENSING; SUB-CONTRACTING

(Mutuality of interests and consent to relations with third persons; assignment of rights and delegation of duties by the licensor or technology supplier to third persons in a special relationship; extension of benefits to third persons selected by the licensee or technology recipient; assurances by the respective parties of continued performance of their respective obligations; the carrying out of tasks by sub-contractors; types of provisions in the license or agreement; designation of third persons and definition of terms)

I. *Mutuality of Interests and Consent to Relations with Third Persons*

537. Any given technology transfer transaction is based on a relationship of mutual interest and reliance between the parties. Attempts by one or the other of the parties to introduce a new partner or another to share partly the benefits or to bear or assume some of the burdens of the industrial property license or the technology transfer agreement may strain, if not alienate, relations and may even provoke a rupture of the marriage of the mutual interests that were defined in the negotiations and are expressed in the legal arrangements of the parties.

538. Consequently, it is not unusual to find in the license or the agreement a provision to the effect that neither party may assign its rights or delegate its duties or otherwise extend the benefits of the

(237) See note (236), paragraph (b), *supra*.

(238) See note (236), paragraph (e), *supra*.

license or agreement or confer the tasks thereunder to a third person without the consent of the other party to the license or agreement (239). In that event, however, an exception is usually made as to an assignment or transfer to a business successor of either party.

539. In certain instances, the parties may wish to adopt more flexible measures that depart from the approach of prior mutual consent.

2. *Assignment of Rights and Delegation of Duties by the Licensor or Technology Supplier*

540. The licensor or technology supplier that is a legal entity in a complex of independent enterprises may wish to have the power to assign certain of its rights, particularly the right to receive royalties (240), or to delegate certain duties, such as maintaining in force the patents or trademarks covered by the license or supplying the technical information or providing technical services and assistance under the agreement, to other legal entities with which it has a special relationship, thus enabling it to take into account the diversified nature of its related operating enterprises and to allow for such contingencies as a change in its legal identity or a reorganization of the legal structure of the family of enterprises of which it is a member.

541. In the event that such a power as to matters other than royalties or other remuneration is accepted by the licensee or technology recipient, the latter may wish to have assurances that the assignee or transferee of the licensor or technology supplier will agree to be bound to the same extent and be in a position to maintain the rights licensed or to supply the agreed technical know-how or technical services and assistance, or otherwise to undertake the performances or other commitments of the licensor or technology supplier (241).

3. *Sub-Licensing by the Licensee or Technology Recipient*

542. Correspondingly, the licensee or technology recipient may wish to extend certain benefits to other persons (242), or to at least those who are in a special relationship with the licensee or technology

(239) *Assignment*

Neither Party shall, without the prior written consent of the other, assign any of its rights or delegate any of its duties under this Agreement or under any agreement supplementary thereto, except to its legal successor or to any legal person acquiring all or substantially all the business and assets of such Party.

(240) *Assignment of Royalties or Other Remuneration*

The Licensor may assign the right to receive royalties or other remuneration payable by the Licensee under the terms of this Agreement to any bank or financial institution or other legal person, provided that notice in writing is given by the Licensor to the Licensee at least thirty days before any of the dates indicated in Article ... (see note (218), *supra*) of the name and address of such legal person and of the date as from which such royalties or remuneration should be paid to such legal person.

(241) *Assignment by Licensor to Third Persons under Specified Conditions*

The Licensor may assign all rights or delegate all duties under this Agreement to any third person who shall have agreed to be bound to the same extent as the Licensor by all of the terms and conditions of this Agreement and to whom the Licensor shall have:

- (i) assigned all or substantially all of the Patents and transferred all the Technical Information and Know-How; or
- (ii) assigned or granted the right to grant licenses (for the country specified) under all or substantially all of the Patents and transferred all the Technical Information and Know-How.

(242) *Sub-License by the Licensee to Third Persons*

The Licensee may, with the consent of the Licensor, extend the benefits of this Agreement to any one or more of the Licensee's present and future Associates or to any third person upon such terms and conditions as may be agreed upon among the Licensor, the Licensee and any such Associate or third person and, where appropriate, subject to the action of any government body concerned.

recipient (243), or possibly also, in certain cases, agencies or institutions of its government (244) (245), as by allowing such third persons to apply the technology or exercise the industrial property rights. Sub-licensing permits the sharing of benefits with other producers and promotes the access to technology already available in the country.

543. The licensor or technology supplier may be amenable to such sub-licenses, particularly if assurances are given on such matters as the continued responsibility of the licensee or technology recipient for the payment of royalties and the adherence by the beneficiaries to the agreed measures not to disclose the technical information or to comply with the standard of quality of the product bearing a trademark and its use (246).

4. *Sub-Contracting by the Licensee or Technology Recipient*

544. The licensee or technology recipient may wish to carry out certain tasks through sub-contractors. Sub-contracting by the licensee or technology recipient enables it to utilize local suppliers and resources, particularly in the construction of the plant, in the supply of equipment or other capital goods or intermediate goods or raw materials (see Section I, paragraphs 318 to 330), or in the manufacture of spare parts or other components of the product (see Section J.2, paragraphs 332 to 334). The principal legal problems involved in sub-contracting, including the question whether the manufacture of all or part of the product by someone other than the licensee though with his consent is within the scope of the license granted (see paragraph 333) and the matter of adopting appropriate safeguard measures against the disclosure of the technical information or know-how (see paragraphs 270 and 334), have been treated previously (247).

5. *Types of Provisions in the License or Agreement*

545. To give effect to these more flexible measures, the parties may wish to adopt appropriate provisions in the license or the agreement. Such provisions may confer the power to assign, or to grant permission, to defined third persons to exercise specified rights or to delegate specified duties to, or confer specified tasks on, defined third persons, and may further state the terms and conditions of that assignment, permission, or delegation.

546. The kinds of rights or benefits and duties or burdens which might be included within the scope of these provisions have been indicated. As concerns the third persons, the parties may wish to mention specific legal persons or governmental units or to refer to them in a general way and, in that event, to define such terms as "subsidiary," "associate," "affiliate," and "third person" (248).

(243) *Sub-License by the Licensee to Associates*

(a) The Licensee may extend the benefits of this Agreement from time to time to any one or more of the Licensee's present Associates; provided, however, that each Associate of the Licensee to which such extension is made shall agree to be bound by all the other terms and conditions of this Agreement to the same extent as the Licensee is bound hereby.

(b) The Licensee will promptly notify the Licensor in writing of each such extension made by it as herein provided.

(c) The Licensor agrees that it will accept from such Associates of the Licensee statements and royalty payments in respect of operations of such Associates hereunder in lieu of statements and royalty payments from the Licensee in respect of such operations.

(d) The Licensee shall be and remain primarily responsible for the rendering of statements and the payment of royalties in respect of such operations as well as for the performance of all other obligations under this Agreement of such Associates.

(244) *Sub-License by the Licensee to Government Agency or Institution, Example 1*

The Licensee may extend the benefits of this Agreement to any agency or institution of the Government of (specified country) upon such terms and conditions as may be agreed upon among the Licensor, the Licensee and the Government.

(245) *Sub-License by the Licensee to Government Agency or Institution, Example 2*

(a) The Licensee may extend the benefits of this Agreement to any agency or institution of the Government of (specified country), provided such agency or institution shall agree to be bound by all the terms and conditions of this Agreement to the same extent as the Licensee.

(b) In the event of such extension the Licensee will promptly notify the Licensor in writing and the operations of such government agency or institution shall be deemed, for the purposes of this Agreement, to be operations of the Licensee.

(c) The Licensee shall be and remain primarily responsible for the payment of license fees in respect of such operations as well as for the performance of all other obligations under this Agreement of such government agency or institution.

(246) See note (243), paragraph (d), *supra*, and note (245), paragraph (c), *supra*.

(247) On the subject of sub-contracting in general, see *Sub-contracting for Modernizing Economies* (1974), a study by the United Nations Industrial Development Organization (UNIDO), United Nations Publication ID/129 (ID/WG.41/35), Sales No. E.74.H.B.12.

(248) See notes (51) to (56), *supra*.

547. In this latter context, the parties may wish to bear in mind the fact that under the laws in any given country dealing with business organizations, taxation, foreign investment, and foreign exchange, export and import controls, etc., these terms are often defined in a particular way. Further, it may be noted that, under the laws in certain countries governing the transfer of technology, one or more of these terms may also be defined for the purpose of those laws and that it cannot be assumed that these definitions are the same, or will be construed in the same way, as they are under the other laws previously mentioned.

R. INJURY OR DAMAGE TO THIRD PERSONS OR THEIR PROPERTY; INSURANCE

(Liability for injury or damage resulting from the exploitation of the technology or use of the resulting product; apportionment of the liability and of the cost of insurance; exemption from liability or responsibility)

1. *Injury to Third Persons or Damage to their Property*

548. Third persons may sustain personal injury or their property may be damaged as a consequence of the exploitation of the invention or the industrial design or the use of the know-how or of the product resulting from that exploitation or use.

549. The act giving rise to that injury or damage may be attributable to the licensor or technology supplier or the licensee or technology recipient or to their respective employees or to other persons. The act in question may be a fault or defect in the invention or the industrial design or in the know-how, or in the way it is exploited or used, or in the technical services or assistance rendered, or in the manufacture or the assembly of the product or the application of a process necessary for the production of the product.

550. Those injured as a result may be the employees of the licensor or technology supplier or of the licensee or technology recipient or persons using or purchasing the product, or indeed even innocent bystanders. As to such employees, legislation governing working conditions, including safety standards, and the applicable law of the employment relationship as well as laws of tort or delict will play an important role in allocating the risks and determining the burden of liability for injuries resulting from acts of the employer or of independent contractors.

551. The main problems that may arise in the area of civil liability for injury or damage caused by products include defining the product, the persons incurring liability, the persons in whose favor liability is imposed, the kinds of injury or damage for which compensation is receivable, limitations on the recovery of compensation, the defenses available to the persons incurring liability, the basis of liability, and the period of limitation. These and other problems are currently being studied by the United Nations Commission on International Trade Law, particularly in the context of the unification of the rules of liability and their impact on international trade (see, *inter alia*, *Liability for Damage Caused by Products Intended for or Involved in International Trade*, Report of the Secretary-General of the United Nations, United Nations document A/CN.9/103, March 6, 1975).

552. It is therefore in the interest of the parties to make provision in their industrial property license or technology transfer agreement on such matters as (a) which party is to accept liability; or (b) how the liabilities are to be apportioned; or (c) what indemnities, if any, are to be given by either party; or (d) how the parties will keep each other informed on these matters.

553. It is not unusual to find a provision in the industrial property license or technology transfer agreement allocating responsibility to the licensor or technology supplier for injury to third persons or their property which arises out of or in connection with the manufacture of the product or the application of the process by which the product is manufactured and which is attributable to the use by the licensee or technology recipient of the technology supplied by the licensor or technology supplier (249).

(249) *Indemnification by the Transferor for Loss or Damage of Product or to Third Persons or Property*

The Transferor also agrees to indemnify and hold harmless the Transferee and its directors, officers and employees from any and all claims for loss of or damage to the Product manufactured using any Technical Information furnished under this

Agreement and from any and all claims for damage or injury to persons or property or for loss of life arising out of or in connection with the manufacture or the use of the Product manufactured using the Technical Information furnished under this Agreement.

554. In this respect, attention is drawn to the laws in certain countries governing the transfer of technology which provide that the licensor or technology supplier may not be exempted from liability or responsibility in regard to any lawsuit brought by third persons on the ground of faults or defects inherent in the technology which is the subject of the industrial-property license or the technology transfer agreement.

2. Insurance

555. The parties should also bear in mind the possibilities of obtaining insurance covering personal injury or property damage and the provisions of the applicable law. In the event that insurance can (or under the applicable law must) be effected, the parties will wish to allocate the cost of such insurance and specify which of the parties shall take the necessary steps and in what countries to procure the necessary insurance coverage.

556. A licensor or technology supplier may face difficulties in obtaining insurance in its country to cover its acts occurring in the country of the licensee or technology recipient or to cover injury or damage to property in that country as a result of acts occurring outside that country. In other instances, the applicable law may require that acts or injury to persons or damage to property occurring in the country of the licensee or technology recipient must be insured with an enterprise in that country. In that event, the parties may wish to consider whether the insurance should be effected by the licensee or technology recipient and whether the cost thereof should be borne by the licensor or technology supplier or by the licensee or technology recipient (250).

S. DEFAULT; CHANGED CONDITIONS OR EVENTS; WAIVER; REMEDIES

(Agreed remedial measures for specified types of default; remedies of the licensee or technology recipient: non-delivery of know-how, delay in supplying know-how, failure of guarantee or results, warranty against claims by third persons for infringement, security—advance payments, performance letters of credit; remedies of the licensor or technology supplier: delay in payment, failure of payment, disclosure of know-how, failure to exploit the technology or use the trademark; changed conditions or events; force majeure)

1. Agreed Remedial Measures for Specified Types of Default

557. Although there is the necessary degree of mutual confidence between the parties in the pursuit of their individual and common interests, one or the other of the parties may fail to perform within the time prescribed or may not perform at all one or more of its obligations under the license or the agreement. When non-performance is likely or occurs, the parties may be able to reach a satisfactory solution by remedying the flaw or flaws in the performance without recourse to legal remedies in the courts. Nevertheless, circumstances do arise when the party injured by the default of the other finds no satisfactory alternative solution. Before calling for the settlement of their dispute by resort to external machinery, such as the advice of independent experts, arbitration, or legal proceedings in the courts (see Section V.4, paragraphs 636 to 646), it may be advisable for the parties to agree and set out in the license or agreement the remedial measures which either may take for the most frequent classes of

(250) Insurance

(a) If requested by the Transferor [Transferee], the Transferee [Transferor] shall effect insurance with (name of Company or State Enterprise organized in country of the Transferee) in conformity with the Regulations of (country of the Transferee) against death, accident, medical expenses and hospitalization of the personnel of the Transferor or the disposition of the remains of the defunct.

(b) The Transferor [Transferee] shall reimburse to the Transferee [Transferor] the full amount of expenses entailed by such insurance by remitting the sum due into the account of the Transferee [Transferor] at (specified Bank in the country of the Transferee) within (specified number) days of the date of receipt from the Transferee [Transferor] of the invoice accompanied by a document from [Company or State Enterprise] confirming that such insurance has been effected.

default (251) (252) or which one party may take in the event of a given default of the other (253). The essential principles and practices concerning such measures are not fundamentally dissimilar from those prevailing in other commercial transactions.

2. Remedies of the Licensee or Technology Recipient

a. Non-Delivery of Know-How

558. The failure to supply technical information, or to transmit skills or to render technical services and assistance through professional expertise or essential elements thereof is a fundamental breach of the commitments under the license or agreement. The provisions of the license or the agreement may provide for its termination by the licensee or technology recipient and the return of payments already made (254).

559. The license or the agreement may expressly provide also for payment of a fixed sum, i.e., liquidated damages, in the event of non-delivery of know-how; it may also exclude the payment of liquidated damages by the licensor or technology supplier if its failure is not due to its own default (see paragraphs 573 to 576).

b. Delay in Supplying Know-How

560. The parties often provide for the payment of liquidated damages for delay, calculated on the length of the delay. This avoids the uncertainty involved in the licensee or technology recipient having to prove the actual amount of damages suffered.

561. The amount of the liquidated damages may be hard to evaluate on a daily basis, however. Where practical (i.e., where identifiable elements of technical information or technical or professional expertise correspond to specific items of raw materials, intermediate goods, parts or other components of capital goods), it may be possible to use a daily percentage of the invoice price of the item to which the delayed information or expertise relates. Otherwise, the parties may find it useful to set a flat daily rate. In either case, the parties may wish to consider limiting the damages to an agreed maximum (for instance, a percentage of the price of the item or a fixed sum) which, if reached, will entitle the licensee or technology recipient to terminate the license or the agreement (255). A similar approach could be taken with respect to a delay in the delivery of the item itself.

(251) Termination on Default by Either Party

In the event of failure or neglect of either Party hereto to fulfill any of its obligations under this Agreement and if the other Party gives written notice of such default, then if such default is not cured within (sixty (60) days) after the giving of such notice, the party giving such notice shall have the right to terminate this Agreement at any time thereafter, provided the default is still in existence, by giving written notice of such termination to the defaulting Party.

(252) Termination on Insolvency, Assignment for the Benefit of Creditors or Bankruptcy

If either of the Parties hereto becomes insolvent or makes an assignment for the benefit of creditors or proceedings in voluntary or involuntary bankruptcy are instituted on behalf of or against the said Party or a Receiver or Trustee of the said Party's property is appointed, this Agreement shall forthwith terminate without further action or notice.

(253) See notes (254), (257), (259), (260), (261) and (264), *infra*.

(254) Termination by the Licensee: On Occurrence of Specified Events

The Licensee may terminate this Agreement [at any time] by [(number of) months'] written notice to the Licensor upon the occurrence of any of the following events:

- (i) after the date upon which royalties are no longer payable under Article ... (see notes (193) to (196) and note (199), *supra*), or when the Licensee shall have acquired a paid-up license for the then existing capacity of the Plant in accordance with Article ... (see note (198), *supra*) or (specified period) following the Start-Up Date of the Plant, whichever shall last occur;
 - (ii) the failure of any warranty set forth in Articles ... (see notes (84) to (87), *supra*) or of any guarantee contained in Article ... (see note (137), *supra*);
 - (iii) the failure to supply the Technical Information as provided in Articles ... (see notes (112) and (113), *supra*) or the Technical Services and Assistance as provided in Article ... (see note (163), *supra*);
 - (iv) the occurrence of technological advances which substantially alter the basic technology or the availability of new technology which enables the Product to be manufactured [the Process to be applied] in a substantially different manner or with a substantially different effect as referred to in Article ... (see note (111), *supra*).
- (255) See, by way of analogy, notes (259) and (260), *infra*.

c. *Failure of Guarantee or Results*

562. Where the license or agreement specifies certain guarantees of the results to be obtained by the licensee or technology recipient (see Section G.4, paragraphs 284 to 289) and when these guarantees are not met or the results are not attained, it may also provide what remedies the licensee or technology recipient will be entitled to, including termination (256) or revision of payments (257) or liquidated damages (258). The amount of the damages to be paid for failure to meet the guarantee may be difficult to establish, however. Where the performance is to be tested against a rate of production to be achieved by the equipment or the industrial plant, it may be possible to assess (and limit) the amount of the damages on the basis of the relative magnitude of the licensor's or technology supplier's failure to perform.

563. For example, the parties may place a ceiling on the damages payable by the licensor or technology supplier which is a fraction of the value of the equipment or industrial plant and of the production rate achieved. The maximum liquidated damages may be fixed in terms of a percentage of the invoice price of the equipment or of the plant. Within that maximum, the amount to be paid as damages may be set as a percentage ranging from 10% to 100%, in reverse proportion to the percentage of the required production rate achieved (259). The parties may also agree that the recoverable liquidated damages under that or a similar formula should be allowed as a credit against royalty payments otherwise due (260).

(256) See note (254), paragraph (iii), *supra*.

(257) *Revision of Payments to the Licensor*

(a) The obligation of the Licensee to make payments and the rate of payment for each Product manufactured and sold, or leased or otherwise disposed of, shall be subject to revision in the event that:

- (i) legal proceedings are instituted attacking the validity of the Patent;
- (ii) any of the Patents is invalidated or an application for the grant of any of the Patents is refused;
- (iii) the Licensee can show to the satisfaction of the Licensor that the invention under the Patents or the Know-How supplied by the Licensor has been superseded by the technical or other advances of third persons in the field of use;
- (iv) new laws or regulations are adopted or changes are made to existing laws that relate to the method of payment as provided for in Article ... (see note (231), *supra*);
- (v) more favorable terms and conditions are granted to a third person as provided for in Article ... (see note (236), *supra*).

(b) In the event of failure to satisfy the Licensor or failure to agree on a revised scale of payments, the matter shall be deemed a dispute within the meaning of Article ... (see note (306), *infra*).

(258) See notes (259) and (260), *infra*.

(259) *Failure of Guarantee: Liquidated Damages, Example 1*

(a) If the Transferor fails within the prescribed test period successfully to complete its performance test with respect to the rate of production of the Product required pursuant to Section ... of Appendix ..., the Transferor will pay to the Transferee a percentage of Maximum Liquidation Damages in amounts corresponding to the following schedule:

Percentage of Required Production Rate Achieved	Percentage of Maximum Liquidated Damages Payable Pursuant to Article
100%	No damages
95% to 99%	20%
90% to 94%	40%
85% to 89%	60%
80% to 84%	80%
Under 80%	100%

(b) For the purpose of this Article, "Maximum Liquidated Damages" shall mean ([amount in words and figures] [specified percentage of total price of Plant or Equipment, etc.]).

(260) *Failure of Guarantee: Liquidated Damages, Example 2*

If, after the expiration of the period of the guarantee referred to in paragraph ... of Article ... (see note 137, paragraph (v), *supra*), the said guarantee has not been satisfied in any such performance test, then, as liquidated damages, the Licensee shall be entitled to a credit which may be applied against each of the Licensee's cash royalty payments otherwise payable pursuant to Article ... (see notes (193) to (196) and note (197), *supra*) in respect of all production of the Product from the Plant not exceeding the initially installed designed production capacity of the Plant, and the amount of such credit applicable against each such royalty payment shall be determined by multiplying the amount of each such royalty payment by the "Credit Factor" determined in accordance with Table I below:

Percentage of Guaranteed Yield	Credit Factor
Less than 100%, but at least 99%	...
Less than 99%, but at least 98%	...
Less than 98%, but at least 97%	...
Less than 97%, but at least 96%	...
Less than 96%, but at least 95%	...
Less than 95%	...

The above "Percentage of Guaranteed Yield" shall be determined by dividing the highest Yield of Specification Grade determined in a performance test by the guaranteed Yield of Specification Grade and multiplying the resulting quotient by 100.

d. *Warranty Against Claims by Third Persons for Infringement*

564. When the licensor or technology supplier has made a warranty to the licensee or technology recipient against claims by a third person for infringement of the patent rights of third persons, it is advisable to specify the nature and extent of the warranty (see Section E.1, paragraphs 190 to 205) and the consequences as between the parties of a successful claim by the third person, including suspension of performance by the licensee or technology recipient of its obligations (261), revision of royalty payments (262) or termination of the license or agreement (263).

e. *Security: Advance Payments; Performance Letters of Credit*

565. It may be advisable for the licensee or technology recipient to withhold as security a portion of the lump-sum payment or the fees for technical services and assistance equivalent to all or part of the maximum liquidated damages until the expiration of the guarantee, warranty or time set for a given performance to which the liquidated damages relate.

566. Alternatively, another form of security could be adopted in lieu of, or in addition to, withholding part of the payments. The licensee or technology recipient might request the licensor or technology supplier to furnish, through a commercial bank, a conditional letter of credit in the amount of all or part of the maximum liquidated damages payable. This form of security provides adequate protection to the licensee or technology recipient and is not unfavorable to the licensor or technology supplier, who will have immediate use of funds—that portion, if any, of the advance payment made by the licensee or technology recipient—and can exercise some degree of control over the matter if, for example, arbitration may be required prior to payment in the event of a dispute.

567. In addition, where the amount of the advance payment by the licensee or the technology recipient is large, it might demand of the licensor or technology supplier a second performance letter of credit to assure the return of its advance payment in the event of the failure of the licensor or technology recipient to deliver the technical know-how or the technical services and assistance agreed to.

3. *Remedies of the Licensor or Technology Supplier*

a. *Delay in Payment*

568. The license or the agreement may lay down what compensation the licensor or technology supplier is entitled to receive from the licensee or technology recipient in the event that the latter fails to pay within the time limits. Generally, this compensation is by way of interest on the amount due.

b. *Failure of Payment*

569. In the event that the licensee or technology recipient fails to pay, the parties may specify what period of time must elapse before the licensor or technology supplier may exercise its remedies and under what conditions they may be exercised. The remedies might include, for instance, the suspension

(261) *Suspension of Performance: Legal Proceedings Attacking the Validity of the Patents or Know-How or Technical Services or Assistance*

In the event that legal proceedings are instituted by any third person attacking the validity of the Patents, the Licensee may, after giving (number of (days)) written notice to the Licensor, suspend the performance of the Licensee's obligations under this Agreement.

(262) See note (257), paragraphs (i) and (ii), *supra*, and notes (91) and (92), *supra*.

(263) See note (254), paragraph (ii), *supra*.

of the performance or performances of the licensor or technology supplier or the termination of the license or the agreement (264).

570. Where the license or agreement requires the return of technical information in the event of termination (see Section T.4, paragraphs 593 to 598), the licensor or technology supplier might also request the licensee or technology recipient to pay a fixed amount as compensation for the fact that the latter has had knowledge of the know-how and acquired the possibility of using it or has in fact applied it.

c. Disclosure of Know-How

571. The question of the disclosure of know-how and the safeguard measures that the parties to the license or agreement may wish to adopt are examined in another section of these explanatory notes (see Section G.3, paragraphs 255 to 283). Whether it would be possible for the parties to fix an amount as liquidated damages in the event that safeguard measures are not adhered to is another matter.

d. Failure to Exploit the Technology or Use the Trademark

572. Where payment by the licensee or technology recipient is related to the results obtained (i.e., royalties linked to volume of production, sales or profits) and the license or agreement places on the licensee or technology recipient the obligation to work the invention or apply the know-how or use the trademark during a specified period and to attain a certain volume and quality of production (265), the parties may provide the remedies—e.g., liquidated damages or termination—if the licensee or technology recipient fails to comply with this obligation (266).

4. Changed Conditions or Events; Force Majeure

573. Conditions may change materially or events may occur which interfere or threaten to interfere with the performance of a party or which render that performance impossible or subject it to substantially increased risks or expenses (*force majeure*).

574. Unless the parties have defined these conditions or events, the party affected will have to rely on the courts and varying judicial interpretations of the adequacy of such changed conditions or the occurrence of such events to relieve it or permit it to suspend or delay its performances under the license or agreement without being required to pay compensation for non-performance (267).

575. Under such circumstances, the parties may wish to define, describe or list the conditions or events which entitle one party to claim it is relieved of a given obligation (268) or is permitted to suspend a given performance or to invoke a given remedy (269).

(264) *Termination by the Licensor: On Occurrence of Specified Events*

The Licensor may terminate this Agreement [at any time] by [(number) days] written notice to the Licensee upon the occurrence of any of the following events:

- (i) whenever amounts payable to the Licensor pursuant to Article ... (see note (219), *supra*) have not been received in full by the Licensor within a period of (number) months from the dates on which the statements shall be submitted pursuant to Article ... (see note (218), *supra*) of the present Agreement;
- (ii) failure to make payments on the ground stated in Article ... (see note (233), *supra*) (Effect of Change in Exchange Control Law);
- (iii) if the Licensee fails to take reasonable measures to safeguard against the disclosure of Technical Information provided for in Article ... (see note (116), *supra*) and as a result of that failure the technical information is disclosed or communicated to unauthorized persons;
- (iv) if the Licensee is not exploiting the market as provided for in Article ... (see note (98), *supra*).

(265) See note (98), *supra*.

(266) See note (264), paragraph (iv), *supra*.

(267) *Force Majeure*

No failure or omission by either Party hereto in the performance of any of its obligations under this Agreement shall be deemed a breach of this Agreement nor create any liability if the same shall arise from *force majeure*.

(268) *Waiver*

(a) No omission or delay on the part of any Party hereto in requiring a due and punctual fulfillment by the other Party hereto of the obligations of such other Party shall be deemed to constitute a waiver by the omitting or delaying Party of any of its rights to require such due and punctual fulfillment of any other obligations hereunder whether similar or otherwise, or a waiver of any remedy it might have hereunder.

(b) The failure on the part of either of the Parties hereto to exercise or enforce any right conferred upon it hereunder shall not be a waiver of any such right nor operate to bar the exercise or enforcement thereof at any time or times thereafter.

(c) Waiver of any breach of any provision hereof shall not be deemed to be a waiver of any other breach of the said provision or any breach of any other provision hereof.

(269) See, for example, note (254), paragraph (iv), note (257), paragraphs (iii), (iv) and (v), and note (261), *supra*.

576. However, attempts to be exhaustive in listing or defining in general such conditions or events are likely to be counter-productive. If the condition that changes or the event that occurs is not listed, it may give rise to an inference that its omission was intentional, whereas, if the relevant provision is general, it is likely to be subject to different interpretations. Consequently, it may be advisable for the parties at least to specify the procedure to be followed should one party believe that the conditions have changed or that events have occurred or are about to occur which affect its performance under the agreement (270). That procedure might include notification by one party to the other, the establishment of a joint report concerning the conditions or events, the submission by one party to the other of proposals for action, and the specification that failure to give effect to the proposals will be considered a dispute and bring into play specified machinery for the settlement of disputes (e.g., a reference of the matter to an expert or to arbitration or to legal proceedings in the courts (see Section V.4, paragraphs 636 to 646).

T. ENTRY INTO FORCE; DURATION; TERM; TERMINATION; EXPIRATION; EXTENSION

(Date of signature and entry into force; term of the license or period of the agreement and its extension; effect of expiration or termination; payment of royalties, duration of the use of technology and the use, disclosure or communication of technical information, product on hand or in process, continued effect of specified provisions)

I. *In General*

577. The parties to an industrial property license or agreement will wish to specify the date of its signature and entry into force, the duration of the term of the license or licenses granted and of the period of the agreement or of particular performances required, as well as their commencement, expiration, and the conditions of their extension. In addition, they will wish to specify the events upon which duration may be terminated before the expiration of the stated time.

2. *Date of Signature and Entry Into Force*

578. The statement of the date of signature and entry into force may appear early in the text of the license or agreement (271), but usually or most often it appears towards the end of that text (272). Since the signatures may be affixed at different times by the respective parties, they may wish to define the term "date of this License (or Agreement)" (273) as meaning the later of the dates upon which signatures were affixed.

579. The fixing of the date of signature and entry into force can be of importance, particularly under the laws in certain countries governing the transfer of technology which require that the license or agreement be submitted for approval within a certain time after its conclusion. Because of the requirement of government approval, the parties may wish to define the entry into force (274) of the license or

(270) *Changed Conditions or Events*

(a) Each Party hereto shall notify the other of any material change in conditions or the occurrence of any event which interferes or threatens to interfere with the performance of this Agreement.

(b) Upon such notice, the Parties shall establish a joint report as to the existence of such change or event and, pending the establishment of the said report, either may submit to, or invite proposals to be submitted by, the other as to the measures which may be taken by either Party or others to overcome the interference or as to any alternative steps to be undertaken by either Party or others with a view to continued performance under this Agreement.

(c) These proposals may include recommendations for the suspension of any condition or performance under this Agreement, for a modification of the terms of performance, or for the termination of the Agreement and for the assumption by either Party of any costs incurred or to be incurred as a result of the change or event which has arisen or in giving effect to the recommendations.

(d) Failure of the Parties to agree on the establishment of the joint report referred to in paragraph (b) of this Article, or to make proposals, or to give effect to the recommendations advanced by the other, shall be considered a dispute within the meaning of Article ... (see note (306), *infra*).

(271) See note (2), *supra*.

(272) See note (315), *infra*.

(273) See note (57), paragraph (a), *supra*.

(274) *Entry Into Force; Duration; Term; Expiration*

(a) [Subject to Articles ...] This Agreement shall come into force, and the term thereof shall commence, on the Effective Date.

(b) Unless terminated as provided in Articles ... (see notes (251), (252), and (253), *supra*), this Agreement shall continue in full force for a period of (stated number) years.

agreement in relation to the date of that approval, as, for example, a specified time after that date or after notice of such approval (275) and the endorsement on the license or agreement of the date of approval or when the parties have inserted the effective date in the license or agreement and have initialled that date (276) (see also Section A: Introductory Aspects, paragraphs 121 to 123).

3. *Term of the License or Period of the Agreement and its Extension*

580. As concerns the term of the license or the period of the agreement (277), the duration will depend upon the legal term of the industrial property right or rights involved or the length of time to undertake the performance or performances required.

581. The legal term of a given industrial property right varies. For example, the protection conferred by a patent is generally 15 to 20 years, that of an industrial design 5 to 15 years, and a shorter term in the case of a utility model. The protection of a trademark is not limited in time, but it is usually subject to the periodic renewal of the registration (generally every 5 or 10 years) and, in many countries, to the continued actual use of the trademark. In fixing the term of the license, the unexpired portion of the legal term of the industrial property right will have to be taken into account. So, also, the length of time required for a given performance will depend on the nature of the performance. The period for the supply of specified technical information may be commensurate with the term of the license. The period of technical services and assistance will depend on the training program or other activity. The period for the payment of royalties will be a function of the term of the license, if any, and the estimated "price" which the parties have in mind. The duration of the safeguard measures against the disclosure of the technical information must take into account the type of information, the pace of developments in the technological field in question and the number of persons exposed to the information.

582. In light of the foregoing, the parties should exercise care in stating as such the term of the license or the period of the agreement without reference at least to the duration of the industrial property rights or a given performance or series of performances. They should weigh the consequences of that duration in respect to each other before fixing the term of the license or the period of the agreement or alternatively fixing not that term or period but only the duration of the permission granted for specified rights or a given performance.

583. It should be noted that under the laws in certain countries governing the transfer of technology the duration of specified kinds of industrial property licenses or technology transfer agreements or of particular performances thereof is subject to a fixed time limit or must meet specified criteria.

584. Thus, under the laws in one country, the government authorities may establish the duration of a license or agreement and, if the duration has not been laid down, a license or agreement which exceeds five years is subject to special approval. In another, it must not exceed five years, while in yet another it may not be too long and, in any case, must not exceed ten years. In another, the provisions for the duration may neither be too long nor too short. In some laws, it is stated that a patent license or trademark license may not exceed the period of validity of the protection of the industrial property rights relating to the patent or relating to the registration of the trademark or that the duration of the payment of royalties may not exceed that period. In at least one country, the payment of royalties is restricted to a period of five years from the date of commencement of production, provided production is not delayed beyond two years from the signature of the agreement (i.e., a maximum of seven years from the signature of the agreement).

585. As concerns technology transfer agreements not involving industrial property rights, the laws in one country provide that the duration of an agreement to supply know-how that is intended to be applied for the production of consumer goods or materials in general or required for the manufacture of capital goods must be set in relation to the time necessary to enable the technology recipient to master the technology by adequate use thereof and to obtain concrete results derived from its incorpo-

(275) See note (57), paragraph (b), *supra*.

(276) See note (315), *infra*.

(277) See note (274), paragraph (b), *supra*.

ration; in the case of capital goods, a period of five years from the actual start of production must be observed, although that period may be extended. To attain these objectives, the laws of that country provide also that the technology recipient under these agreements must present separate information regarding its technology capacity, with an explicit time-table for the absorption of the technology and the execution of the program for the training of its specialized technical personnel. As concerns technical services and assistance agreements, the laws in that same country provide that the period of the agreement must take into account the time necessary to render the services by the professional experts, the presentation of the project or the completion of the work in question.

586. Further, it should be noted that, under the laws in certain of the countries governing the transfer of technology, the renewal or extension of the term of an industrial property license or the period of the technology transfer agreement is also subject to the approval of the government authorities.

4. *Effect of Expiration or Termination*

587. The duration of an industrial property license or a technology transfer agreement may come to an end at the normal expiration of the stated time fixed by the term of the license or the period of the agreement or prior to that time as the result of the exercise of a power of termination.

588. As noted in a previous section of these explanatory notes, the power of termination may be conferred upon one or the other of the parties as one of the agreed remedial measures for specified types of default by the other party (see Section E: Points Concerning Patents, paragraphs 200 and 204 (vi), and Section S: Default; Changed Conditions or Events; Waiver; Remedies, paragraphs 557 to 576).

589. In the event of the expiration or termination of the term of the license or the period of the agreement, questions may arise concerning the effect of such expiration or termination on the continuation of certain performances including the payment of royalties, the use of the technology, the use, disclosure and communication of technical information, the manufacture and sale as concerns products in process or on hand and on certain obligations specified in the license agreement.

590. In this context, it should be noted that, under the laws in certain countries governing the transfer of technology, when the parties to an industrial property license or technology transfer agreement terminate it in advance of the stipulated date of its expiration, notification to that effect must be given to the government authorities within a fixed time limit after the date of termination (see paragraph 615).

a. *Payment of Royalties*

591. At the expiration of the term of a license or the period of an agreement, royalties will normally cease. In the event of termination, however, the question arises whether royalty payments are due until the expiration of the term of the license or the period of the agreement if the basis of the termination by the licensor or technology supplier is the default of the licensee or technology recipient. Where the default by the licensee or technology recipient is due to financial difficulties or business failure, since royalty payments are linked to production, sales or profits, no practical purpose is likely to be served if the licensor or technology supplier pursues the matter. If other circumstances give rise to the default, a claim for damages based on the loss of expected royalties might be asserted by the licensor or technology supplier.

592. As noted previously (paragraph 585), under the laws in certain countries governing the transfer of technology, the payment of royalties beyond the term of an industrial property license is not permitted. Further, under the laws in one of these countries, if the amount of royalty payments at the expiration of the period of an agreement for the supply of know-how intended to be applied for the production of consumer goods or materials in general has not reached the total estimated amount, the difference existing between the two amounts is not deemed to be payable.

b. *Duration of the Use of Technology and the Use, Disclosure or Communication of Technical Information*

593. In some instances, the parties may wish to control the use of the technology or to continue the safeguard measures concerning the disclosure of technical information after the expiration or termination of the term of an industrial property license or the period of the technology transfer agreement.

594. With respect to the question of the effect of expiration of the term of the industrial property license, it should be noted that the laws in certain countries governing the transfer of technology provide that it may not contain a provision prohibiting the free use of the technology or the related technical information after the expiration of the industrial property right that is the subject of the license. As concerns the use of technology after the expiration of the term of the industrial property license but before the expiration of the term of the industrial property right that is the subject of the license, the laws of one of these countries also provide that the license must contain a provision whereby the licensee may continue to use the technology.

595. With respect to technology not covered by industrial property rights, the laws in certain countries governing the transfer of technology provide that, after the expiration of the period of a know-how agreement, the technology recipient will be free to use the technology. Under the laws in another of these countries, however, an agreement to supply know-how intended to be applied for the production of consumer goods or materials may not contain a provision prohibiting the free use of the technology when a reasonable period has elapsed after each transfer of the latest information.

596. Presumably, under the laws in these countries, the measures to safeguard against the disclosure of technical information which the parties have agreed on are to be given effect during the term of the patent license or the period of the agreement and, under the laws in one of these countries, in the case of the know-how agreements referred to, for a reasonable period after each transfer of the latest information (278).

597. In the case where the patent license or the technology transfer agreement comes to a premature end before the expiration of its stated term or period, the question arises whether the licensee or the technology recipient must stop its manufacture and observe the agreed measures to safeguard against the disclosure of technical information, including handing back that information to the licensor or technology supplier from which it was received.

598. One approach would be to give effect to provisions in the license or agreement on the use, disclosure and communication of technical know-how after the license or agreement has ended if it is terminated by one party because other obligations are discharged owing to circumstances beyond the control of either, as in the case of *force majeure*, or if it is terminated by the licensor or technology supplier because of the default of the licensee or technology recipient. On the other hand, if the patent license comes to an end because of the invalidation of the patent, or if the licensee or technology recipient terminates the license or the agreement because of the default of the licensor or technology supplier, a contrary approach could be adopted (279).

c. *Product on Hand or in Process*

599. So, also, if the term of the license of a patent is longer than the period of the agreement for the supply of know-how related to the patent (as could happen in the case of a license on improvements made or a license related to new technology developed under the agreement), the licensee or technology

(278) See notes (131) and (134), *supra*.

(279) *Effect of Termination: Use, Disclosure and Communication of Technical Information*

(a) In the event that either Party terminates this Agreement prior to the expiration of the terms thereof because of a change in conditions or the occurrence of an event beyond the control of either Party, as provided for in Article ... (see note (270), *supra*) (Changed Conditions or Events), the other Party shall, for a period of (specified duration), not disclose or communicate or use any Technical Information supplied under this Agreement except upon terms and conditions to be agreed on.

(b) In the event that the Licensor, in accordance with Article ... (see note (264), *supra*) (Reasons for which the Licensee is Responsible), terminates this Agreement prior to the expiration of the term thereof, the Licensee, unless it has substantial-

ly performed all its obligations under this Agreement, shall return all Technical Information in written or visual form and shall, for a period of (specified duration), not disclose or communicate or use such Technical Information except as provided in Article(s) ... (see notes (117) and (119), *supra*).

(c) In the event that the Licensee, in accordance with Article ... (see note (254), *supra*) (Reasons for which the Licensor is Responsible), terminates this Agreement prior to the expiration of the term thereof, the Licensee may continue to exercise all rights under the license of any of the Patents or of any patent of improvement granted under Article ... (see note (106), paragraph (d), *supra*) (Improvements and Developments), and to use the Technical Information supplied under this Agreement, for [the duration of such license] [a period of (specified duration)], subject, however, to the provisions of Article ... (see note (116), *supra*) (disclosure, communication and use of Know-How).

recipient could be allowed, during the term of the license, to exploit the patented invention covered by the license and to use related technical know-how supplied by the licensor or technology supplier (280).

600. In any event, it would be advisable to include a provision in the license or agreement that the licensee or technology recipient is permitted to sell any product on hand at the time of the expiration or termination of the license or agreement as well as to complete products in the process of manufacture at that time and to use or sell products, subject to making royalty payments, if any, which otherwise would be required (281).

d. *Continued Effect of Specified Provisions*

601. A provision in the license or agreement may state that effect shall continue to be given to specified provisions even after the expiration or termination of the license or agreement (282). Among these "survival clauses" are provisions concerning the maintenance, repair or replacement of equipment (283), the settlement of payment (284), including requirement to report on production, sales, profits and royalties (285), the review and inspection of records (286), the settlement of disputes (287), the giving of notices (288), and those provisions relating to the payment of royalties and the use or disclosure and communication of technical know-how which have been discussed previously (289).

U. APPROVAL OF GOVERNMENT AUTHORITIES

(Forms of control of the outflow and inflow of technology: control by developed countries of the outflow and control by developing countries of the inflow of technology; main characteristics of controls in developing countries: origin of the technology, legal persons subject to control, types of technology transfer transactions and legal arrangements, terms and conditions of the legal arrangements, nature of the technology, applicants for registration or approval, consequences of failure to register or to obtain approval of the license or agreement)

1. *Forms of Control of the Outflow and Inflow of Technology*

602. Many developed and developing countries have adopted some form of control over the outflow and inflow of technology, either as such, or as an element of a financial, commercial or investment transaction.

(280) *Effect of Expiration: Continued Use of Technical Information; Improvements and Developments*

In the event that the term of the license of any of the Patents or of any patent of improvement granted under Article ... (see note (106), paragraph (d), *supra*) (Improvements and Developments) is longer than the term of this Agreement, then, after the expiration of the latter term, the Licensee may, for the duration of such license, continue to exploit any invention or improvement covered by such license and to use any Technical Information supplied or developments in Know-How communicated by the Licensor to the Licensee under this Agreement.

(281) *Effect of Termination or Expiration: Product on Hand or in Process*

Notwithstanding anything herein to the contrary, in the event of any termination or expiration of the term of this Agreement, the Licensee shall have the right to use or sell the Product on hand on the date of such termination or expiration and to complete the Product in the process of manufacture at the time of such termination or expiration and use or sell the same, provided, however, that the Licensee shall make the payments required by Article ... (see note (219), *supra*) and reports required by Article ... (see note (218), *supra*) on the Product.

(282) *Effect of the Termination or Expiration: Accrued Rights: Continued Effect of Specified Provisions*

(a) Any termination or expiration of the term of this Agree-

ment shall be without prejudice to the rights of either Party against the other which may have accrued up to the date of termination.

(b) In respect of any Equipment acquired by the Licensee from the Licensor pursuant to Article ... (see note (168), *supra*), the Licensor shall continue to be obliged to maintain, replace or repair such Equipment or parts thereof for a period of (number of days) from the date of the termination or of the expiration of the term of this Agreement.

(c) Articles ... (see notes (218) to (222) and (279) and (280), *supra*, and (299), (306), (310), (311) and (314), *infra*) shall continue to have effect as long as necessary to permit a final accounting and to resolve any dispute concerning any matter at issue under this Agreement.

(283) See note (282), paragraph (b).

(284) See note (219), *supra*.

(285) See note (218), *supra*.

(286) See notes (220) to (222), *supra*.

(287) See notes (299), (306), (310) and (311), *infra*.

(288) See note (314), *infra*.

(289) See notes (279), (280) and (281), *supra*.

603. In developed countries, the outflow of technology may be subject, in the interests of national security, to export controls which limit the access to specified technical information by particular persons inside, or to others outside, the country or to anyone in designated countries. In addition, through laws on taxation and on reporting on foreign investments and through currency exchange regulations, developed countries may indirectly control the kind or amount of technology or channel the direction of its transfer to certain countries.

604. In developing countries, the inflow of technology may be subject to a variety of controls. In some countries, these controls are part of a more comprehensive system of laws dealing with foreign investment in the country. In others, the controls result from the foreign exchange regulations which are directed at the flow of payments abroad, whether as dividends, royalties, or income in other forms or as the return of capital. Indirectly, import regulations, particularly lower tariff rates or exemptions on products embodying needed technology, may also have an effect on the inflow of technology. In still other developing countries, legal systems have been devised specifically to control the transfer of technology to, or within, the country. These systems include the requirement that industrial property licenses and technology transfer agreements be notified to government authorities or be registered or approved by them in accordance with criteria established by the legislation or set forth in regulations or guidelines issued by appropriate governmental bodies.

2. Main Characteristics of Controls in Developing Countries

605. A detailed descriptive treatment of the various government controls in developing countries of the kind referred to, as well as the institutional machinery and procedures established to give effect to these controls, is beyond the scope of these explanatory notes. Nevertheless, a guide on the legal aspects of the preparation and negotiation of industrial property licenses and technology transfer agreements would not be complete without at least an indication of the main characteristics of these controls. These controls relate to the following matters: the origin of the technology, the categories of legal persons and the kinds of technology transfer transactions and the types of legal arrangements that fall within the scope of the laws, the terms and conditions of the legal arrangements and the nature of the technology that are subject to control, the persons that may apply for registration and approval of the legal arrangements and the legal consequences of the failure to register or obtain approval of the legal arrangements.

a. Origin of the Technology

606. Under the laws in some of the countries, control is exercised over the transfer of technology, whether of foreign or domestic origin. Under the laws in other countries, only technology which is to be acquired from abroad, or which is to be acquired from a natural person or legal entity resident, domiciled or legally established abroad, is subject to control. However, in at least one of these latter countries, the law controls the transfer of technology within the country even when the transferor is domiciled in the country if the legal arrangements concern undertakings financed by foreign capital or apply to subsidiaries or branches of undertakings domiciled abroad.

b. Legal Persons Subject to Control

607. Under the laws in some of the countries, the controls apply not only to natural persons and private legal enterprises but also to public entities; however, under the laws in some countries, legal arrangements concluded by the armed or security forces are excluded if military secrets or overriding reasons or national defense are involved.

c. Types of Technology Transfer Transactions and Legal Arrangements

608. The laws in the countries which exercise control over the transfer of technology vary in their approach as to the types of transactions and legal arrangements which fall within their scope. Under the laws in some countries, transactions involving industrial property rights and the transfer of technology are classified into a number of fixed categories which tend for the most part to encompass the following: the acquisition of rights or licenses to exploit or use an invention, industrial design, utility model or

trademark; the supply of technical know-how to be applied in the production of consumer goods or in the processing of raw materials, intermediate goods, the assembly of parts or other components of a product or in the manufacture of capital goods; the engagement of technical and professional experts to train personnel or to render technical services and assistance in connection with the exploitation or use of industrial property rights or the application of technical know-how or to render specialized technical or professional services in the management or operation of enterprises or in the planning, programming and preparing of studies and projects needed by the country's productive system. Further, under the laws in one such country, the license must relate to a patent granted or applied for (or in the case of a trademark, registered or applied for) in that country; otherwise the license is regarded as a contract for the supply of technical know-how and subject to the provisions governing that category.

609. According to some of these laws, specific and distinct legal arrangements must be concluded for each category. Under the laws in other countries, while it does not appear to matter whether specific legal forms are employed, emphasis is laid on the requirement that the various elements of the technology transfer transaction must be capable of separate valuation or pricing, a factor which may lead the parties to conclude distinct legal arrangements for each element. Further, it should be noted that, under the laws in these latter countries, the legal arrangements may be reflected in an instrument, a deed, a license, an agreement, a contract or other types of documents.

d. Terms and Conditions of the Legal Arrangements

610. It may be recalled that the requirements of the variety of controls in developing countries, particularly those laws in certain countries governing the transfer of technology, in so far as they effect various types of industrial property licenses and technology transfer agreements and the terms and conditions which may or may not be included in such licenses or agreements, have been singled out in these explanatory notes in connection with the treatment of the points to be considered by the prospective licensor or technology supplier and the potential licensee or technology recipient. These requirements will not be repeated in this explanatory note.

e. Nature of the Technology

611. Under the laws in certain countries governing the transfer of technology, in addition to approving the terms and conditions of the industrial property license or technology transfer agreement, the designated government authority exercises a degree of control over the nature of the technology that is the subject of the license or agreement. Under the laws in some of these countries that control includes a review of the technology to determine whether its acquisition would run counter to the objectives of national policies or plans in matters of technology and development or would have an adverse effect on consumption patterns or the redistribution of income or would not promote technical, economic and social progress. An assessment might also be made of whether the technology will meet the particular sectorial policies and needs and whether it can be adequately absorbed by the licensee or technology recipient and, further, whether the same, similar or alternative technology is readily obtainable within the country.

612. Under the laws in some of these countries, the designated government authority responsible for the registration and approval of the legal arrangements exercises control over the nature of the technology in conjunction with other government units that have responsibilities in the sectoral areas covered by the subject of the technology.

f. Applicants for Registration or Approval

613. Under the laws in some of the countries, only the party who is a natural person or legal entity, resident, domiciled or legally established in the country is qualified to apply for registration or approval of the legal arrangement while in others the licensor or technology supplier who is resident abroad may also apply for the registration or approval of legal arrangements to which it is a party.

614. In view of the qualifications imposed for registration or approval of an industrial property license or technology transfer agreement by the laws of countries controlling the inflow of technology, it may

be advisable for the parties to clarify their respective responsibilities for obtaining such registration or approval under these laws. A similar consideration would apply as concerns the laws in countries controlling the outflow of technology (290).

g. Consequences of Failure to Register or to Obtain Approval of the License or Agreement

615. The failure of the responsible party to submit for registration or approval an industrial property license or technology transfer agreement or its modification, amendment, extension or termination, to the appropriate government authorities within the time limits and under the other conditions prescribed has a number of legal consequences. Under the relevant laws, the failure to comply may render the license or agreement void or unenforceable and subject the party responsible to a penalty or the suspension of its right to trade or to loss of its business organization status. The registration or approval of the license or the agreement may be a prerequisite to giving evidence of actual exploitation of a patent or actual use of a trademark in the country, or obtaining an authorization from the fiscal authorities to make payments abroad or to receiving fiscal or other benefits designed to encourage or promote investment in certain sectors or industries.

V. SETTLEMENT OF DISPUTES

(Mutual confidence as not excluding differences between the parties; explicit terms and conditions permitting flexibility in execution; reference to the text to resolve differences and provisions stating rules of interpretation: definitions, conflicting expressions, prior and contemporaneous understandings and communications and exceptions in integrated transactions, null and void clauses; controlling languages of the text; applicable law: multiple facets of the transaction with contacts in more than one country, applicability of the laws of different countries depending on the status of the parties, the place of their activities and performances and the place where consequences arise; external procedures and machinery for resolving differences and settling disputes: appointment of an independent expert, submission to arbitration, initiation of proceedings before judicial bodies).

1. *In General*

616. Despite the mutual confidence that the parties may have in each other, differences can arise between them concerning the application of the terms and conditions of the industrial property license or technology transfer agreement which they have concluded.

617. As in the case of the legal text of any other commercial arrangement, the industrial property license or technology transfer agreement provides the framework within which the business relations between the parties to it are to be conducted and developed. The license or the agreement gives the necessary guidance through prescribed procedures to bring about the fruition of these relations. The terms and conditions of a license or agreement will of course have a certain degree of precision brought about by the sharpening of the issues and their resolution in the process of the negotiations (see Section C: Definitions of Key Words and Expressions, paragraphs 128 to 132). It is doubtful, however, that at that time all the problems could have been foreseen and, even if considered, their solutions could, or should, have been reflected in the license or agreement. Consequently, the terms and conditions of the license or agreement must be sufficiently explicit and at the same time flexible enough to enable those who are to execute them, but who may not have participated in the negotiations, to carry out the objectives of the parties. These must be achieved not only in the light of the intention of the parties as manifested at the time of their negotiations but also in view of the vicissitudes of the daily business life of operations under the license or the agreement.

(290) *Registration or Government Approval*

(a) This Agreement is subject to the registration in, and approval of the competent Government Authorities of, the country of the [Transferor and of the Transferee] [of the Transferor] [of the Transferee] having been duly obtained.

(b) Within the time limits of any applicable law and if permitted by such law, either Party may, and, if requested by a Party to this Agreement, the other Party shall, apply for the registration or approval of this Agreement to any agency, officer or authority of the Government of (specified country) whose registration or approval is required by such law.

(c) Each Party shall fully cooperate with the other with regard to any such registration or approval, or additional registration or approval that may be required in connection with the implementation of any portion of this Agreement.

(d) In the event of failure to obtain such registration or governmental approval, each Party hereto hereby agrees that it shall in that event bear the expenses which it has incurred in relation thereto.

618. In many instances, the parties will be able to resolve their differences by reference to the text of the license or agreement; otherwise, in the absence of a solution amicably reached on the basis of practical considerations, recourse may be necessary to external procedures or machinery, such as reference to an independent expert who would give advice or make recommendations, or submission of the matter to arbitration, or the initiation of legal proceedings before judicial bodies.

619. For the most part, provisions in an industrial property license or technology transfer agreement for the settlement of disputes by reference to its text or by recourse to external procedures or machinery will not differ from similar provisions in legal texts governing other international commercial arrangements. As to some aspects, however, the laws in certain countries governing the transfer of technology will have a particular impact, especially on such matters as the language of the text, the applicable law, and recourse to an arbitration tribunal or judicial forum other than that of the country whose government authorities approve the license or agreement. The relevant features of these laws are indicated in the subsequent paragraphs.

2. *Rules of Interpretation and the Controlling Language of the Text*

a. *Rules of Interpretation*

620. Reference to the text of the license or agreement to resolve the differences between the parties will be effective to the extent that the wording of the terms and conditions is clear and concise. In this connection, the definition of key words and expressions and the consistent use of such words and expressions throughout the text are indispensable (see Section C: Definitions of Key Words and Expressions, paragraphs 128 to 132). The parties should also specify what documents constitute their agreement (291) (292). In the case of conflicting expressions, certain indications as to which expression is to prevail, often reflecting standard rules of interpretation, may be included in the license or agreement. Thus, where there is a difference between the wording in a recital or whereas clauses in the preamble and in a provision in the body of the license or agreement, the latter usually prevails. Similarly, wording in an annex, appendix or schedule is usually stated to prevail over conflicting wording in provisions in the body of the license or agreement (293). Also, to avoid another type of conflict, a provision is often included in the license or agreement stating that its text embodies the complete expression of the agreement of the parties on the subject and prevails over prior understandings, and communications, as well as over other contemporaneous expressions (294). Exceptions may be made, however, for specified licenses or agreements that were concluded before the license or agreement in question or that together with it form elements of an integrated technology transfer transaction (295).

621. The parties may also wish to include a provision in the license or the agreement to the effect that, if one clause is declared null and void, it will not render null and void other clauses or the license or the

(291) *Contents of the Agreement*

This Agreement contains {(specified number of) Articles} [two sections, the first being these "Special Terms and Conditions," the second being "General Terms and Conditions" attached hereto and incorporated herein, by reference, neither section to be considered without the other, plus (specified number of) Appendices, Annexes and Schedules, identified as Annexes (e.g., A, B and C), Appendices (e.g., D, E and F) and Schedules (e.g., G, H and I)].

(292) *Appendices, Annexes, Schedules as Part of this Agreement*

The Appendices, Annexes and Schedules annexed to this Agreement or to be added thereto shall, for the purpose of this Agreement, be deemed to form part of this Agreement, it being understood and agreed that in case of any deviation or discrepancy between the text of this Agreement and any stipulation made in one or more of the Appendices, Annexes or Schedules hereto the text of the {former} [latter] shall prevail.

(293) See note (292), *supra*.

(294) *Entire Understanding*

(a) [Except as to the (specified) Agreement of (even date herewith or other date) between the Parties,] the terms and conditions of this Agreement constitute the entire agreement and understanding of the Parties, supersede all previous communications, whether oral or written, between the Parties, including any previous agreement or understanding varying or extending the same, and there are no further or other agreements or understandings, written or oral, in effect between the Parties, with respect to the subject matter hereof.

(b) The making, execution and delivery of this Agreement have been induced by no representations, statements, warranties or agreements other than those herein expressed.

(295) *Earlier Agreement Superseded*

This Agreement cancels and supersedes the Agreement between the Parties hereto, dated pursuant to which the Licensor granted to the Licensee certain rights with respect to the Product.

agreement itself (296). However, it should be noted that a clause declared null and void may be so essential that the license or the agreement cannot stand without it.

622. In this context, attention is directed to the laws in certain countries on industrial property which provide that the license must contain certain stipulations, otherwise the license is null and void. Thus, laws concerning trademarks often provide that a trademark license is null and void if it does not contain a stipulation ensuring effective control by the registered owner of the trademark of the quality of the goods of the licensee in connection with which the trademark is used (see Section J, The Production Phase, paragraphs 335 to 342).

623. Similarly, as has been pointed out elsewhere in these explanatory notes, laws in certain countries governing the transfer of technology provide that an industrial property license or technology transfer agreement must contain certain provisions and may not include certain others and that the approval by the government authorities of a license or agreement which meets these requirements is a prerequisite to its validity (see Section U: Approval of Government Authorities, paragraphs 602 to 615).

b. *Controlling Languages*

624. As in the case of other international commercial transactions, the terms and conditions which are included in the industrial property license or technology transfer agreement may be negotiated during discussions carried out in one or more languages. Contemporaneously, or subsequently, the agreement of the parties is reduced to writing and the language of the first draft of that expression, as well as of refinements to it, may or may not be the same language or languages as used in the discussions. While somewhat unusual, the parties could include in their license or agreement a provision indicating the language or languages of the discussions. More often the provision on languages states that the text was made in a specified language or in several specified languages, or states that it was made in one specified language and translated into other specified languages; in either case, it is usually stated which version shall prevail in the event of doubt as to its interpretation (297).

625. Under the laws in certain countries governing the transfer of technology, an industrial property license or technology transfer agreement will not be approved by the government authorities if it is not drawn up in the national language of the country. One of these laws, however, allows an exception for technical terms that have no equivalent in the national language. Under the laws in another of these countries, the text of the license or agreement may be drawn up in a language other than the national language of the country but a translation in that national language must be submitted together with the original text.

3. *Applicable Law*

626. The problem of determining which law is applicable to a transaction involving the licensing of industrial property and the transfer of technology is complicated by the fact that on the international level such a transaction has multiple facets with contacts in more than one country.

627. Thus, the licensor or technology supplier is in one country and the licensee or technology recipient is in another. Their respective activities and the performances required of them under the license or agreement may take place in either of these countries or in a third country. Their activities and performances, though taking place in one of these countries, are likely to have consequences in any one of these three countries or in yet another.

(296) *Null and Void Clause*

In the event of a conflict between any provision of this Agreement and any pertinent law, regulation, ordinance or decree, the provision of this Agreement so affected shall be regarded as null and void or shall be curtailed and limited to the extent necessary to bring it within the legal requirements but otherwise it shall not render null and void other provisions of this Agreement.

(297) *Original and Translations*

- (a) This Agreement has been made in the (specified) language and has been translated into the (specified) language(s).
- (b) In case of doubt as to the interpretation of any of the provisions of this Agreement, the (specified) version of this Agreement shall prevail.

628. Whether the legal system of a given country extends to one or more elements of an industrial property licensing or technology transfer transaction, or to the entire transaction itself, will depend upon the reach of that country's legislative, administrative and judicial framework and the nature of the elements in question. It can be expected, moreover, that the transaction or one or more of its elements may be governed even by the legal system of more than one country. For instance, the legal status of a party may be governed by the law of the country where it is organized or carries on its principal business yet, as pointed out elsewhere in these explanatory notes, its income from the transaction may be subject to tax under the law of not only that country but of another as well (see Section O.7: Points Concerning Settlement of Payment-Taxation, paragraphs 511 to 517).

629. A product manufactured in the country of the licensee or technology recipient may be exported to another country and the proceeds subject to income, sales or turnover taxes in the country of the licensee or technology recipient or in the other country depending upon where the "sale" took place; each country might claim the power of taxation depending on its interpretation of the applicable law on the sale of goods.

630. The validity of an industrial property right or the rights licensed will depend on the law of the country that grants the patent or utility model, or registers the industrial design or the trademark, yet the scope of these rights may depend not only on the law of that country but also on the law of another. For example, the law of the country of the grant or registration may permit the holder of the industrial property right or its licensee to prevent the importation of products which might compete with the product covered by the industrial property right, yet the law of the country from which the product is being exported may not permit a geographical limitation on exports.

631. Similarly, the use, disclosure or communication of technical information may be controlled under the law of the country of the licensor or technology supplier, whereas it may not be subject to control in the country of the licensee or technology recipient, or under the law of a third country.

632. So, also, the civil responsibility of technical and professional experts rendering technical services and assistance will normally be governed by the law of the country where their acts causing injury or damage take place so that, although such experts are from the country of the licensor or technology supplier, if they render services and assistance in the country of the licensee or technology recipient or in a third country, the laws of that country will usually apply. Likewise, if personnel of the licensee or technology recipient undergo training in the country of the licensor or technology supplier, their civil responsibility will usually be determined by the law of that country if their acts causing injury or damage take place there.

633. In light of the foregoing illustrations, even reasonable minds may differ as to what is the "proper law" of the industrial property licensing or technology transfer transaction or of any of its elements.

634. The legal systems of a number of countries permit the parties to the transaction to fix their legal relations in terms of the framework of that system or another. The parties may then negotiate on that premise and, further, also stipulate in the industrial property license or technology transfer agreement that the legal framework of a specified country will govern for the entire transaction or for specified elements of it, perhaps somewhat along the lines suggested by the cases previously illustrated (298). However, it should be kept in mind that their intention may not necessarily be given legal effect in another country whose legal system extends to either of the parties or their activities, or to particular performances in that country in execution of their transaction, or to the consequences for that country of performances elsewhere.

635. In this context, attention is directed to the laws in certain countries pursuant to which an industrial property license or technology transfer agreement will not be approved by the government authorities of the country if it contains a clause declaring that a legal system other than that of the country is to govern the interpretation or performance of the license or agreement.

(298) *Applicable Law*

Regardless of the place of agreement, the place of performance, or otherwise, this Agreement, and all amendments, modifications, alterations, or supplements hereto, shall be construed under, governed by, and the legal relations between the Parties hereto determined in accordance with, the laws of (specified country or political subdivision thereof).

4. *External Procedures and Machinery for Resolving Differences and Settling Disputes*

a. *Appointment of an Independent Expert*

636. If the parties are unable to resolve their differences by discussion or bona fide negotiations (299), they may wish to refer the matter to an independent expert who would give his advice or make a recommendation. This procedure may be applicable to any matter or to given questions of a specialized nature, such as adjustments in royalty payments in the event of infringement (300), the payment of royalties for rights to improvements (301), adjustments in the guarantee of performance or other guarantees under certain circumstances (302), the achievement of the standard of quality of the product (303), the occurrence of a technological advance or the availability of new technology (304), or changes in conditions or the occurrence of events interfering with performance (305).

637. The provision in the license or agreement setting forth the procedure of reference to an expert will indicate the kind of expert to be appointed, how he is to be appointed—as, for example, jointly by the parties, or, if the one party does not agree, then upon the request of the other by the president of an appropriate professional organization—the advisory capacity in which the expert will act, the issuance of his report and the sharing of his expenses (306).

b. *Arbitration*

638. Should amicable discussions fail to resolve their differences (307), or should reference to an expert fail to bring about a satisfactory result (308), the license or agreement may stipulate that the matter is to be settled by arbitration (309).

639. In that event, the arbitration clause will state the competent arbitration tribunal or the applicable legal régime for arbitration. Among the existing arbitration tribunals and rules which could be referred to are the following: the arbitration law of a specified country or a bilateral trade and arbitration agreement or international commercial arbitration convention, the rules of arbitration of a designated United Nations Economic Commission or regional intergovernmental arbitration commission, the rules of arbitration of a national or international arbitration association or a national or international chamber of commerce or other professional association (310).

(299) *Settlement by bona fide Negotiations*

Any dispute, controversy or claim arising out of or relating to this Agreement, or the breach, termination or invalidity thereof, shall be settled through bona fide negotiations between the Parties hereto.

(300) See note (91), *supra*, and note (257), *infra*.

(301) See paragraph 227.

(302) See note (153), *supra*, and paragraph 293.

(303) See note (179), *supra*.

(304) See note (111), *supra*, and paragraph 234.

(305) See note (270), *supra*, and paragraph 576.

(306) *Appointment of Expert*

(a) In the event of any dispute arising [under this Agreement] [under Article(s) ... (see notes (300) to (305), *supra*)] which the Parties are unable to resolve by discussion or bona fide negotiations pursuant to Article ... (see note (299), *supra*), the matter shall be referred to an independent person of good repute and standing who may be an accountant, legal counselor, consulting engineer or other professional person chosen as befits the basic point of disagreement.

(b) The expert shall be appointed jointly by the Parties and in default of agreement he may be appointed (on the application of either Party) by the President for the time being of (specified professional organization).

(c) The professional person appointed shall act as an expert and not in a judicial capacity as an arbitrator.

(d) Either Party may call upon the expert to issue his report within a limited and specified time being a reasonable time in the circumstances.

(e) The Parties shall share the costs of the decision of the expert equally unless he gives a certificate that the conduct of either Party is such that he should bear all the costs.

(307) See note (299), *supra*.

(308) See note (306), *supra*.

(309) See note (310), *infra*.

(310) *Settlement by Arbitration*

(a) Should negotiations pursuant to Article ... (see note (299), *supra*), or the report of the expert appointed pursuant to Article ... (see note (306), *supra*), fail to result in settlement within three (3) months, the Parties hereto agree to finally settle by arbitration pursuant to

Example 1
the Arbitration Law of (name of country).

Example 2
the Trade Arbitration Agreement of (date).

Example 3
the UNCITRAL (United Nations Commission on International Trade Law) Arbitration Rules which the parties declare to be known to them.

Example 4
the Rules of Conciliation and Arbitration of the International Chamber of Commerce.

(b) The award of the arbitrator(s) shall be final and binding upon the Parties hereto.

(c) Judgment upon the award made by the arbitrator(s) may be entered by [any court having jurisdiction thereof.] [the court of (specified country)].

640. Apart from a reference to one of these existing arbitration tribunals or rules, and where permitted by the governing law, the parties may prefer to prescribe in the arbitration clause the arbitration procedure to be followed or to adopt the rules on ad hoc arbitration of the United Nations Commission on International Trade Law (UNCITRAL) (see the UNCITRAL Arbitration Rules adopted by UNCITRAL at its ninth session (United Nations document A/31/17 (1976), pages 35 to 55) and recommended by the United Nations General Assembly (resolution 31/98 of December 15, 1976) for use in the settlement of disputes arising in the context of international commercial relations, particularly by reference to the said Rules in commercial contracts) (311)).

641. A description of the various arbitration tribunals and rules is beyond the immediate scope of these explanatory notes as the subject is one which is not peculiar to an industrial property license or technology transfer agreement. A treatment of the various elements and existing rules of arbitration may be found in a report of the Secretary-General of the United Nations to the ninth session of UNCITRAL (April/May 1976) (see United Nations document A/CN.9/112, November 7, 1975, and A/CN.9/112/Add. 1, December 12, 1975).

642. Attention is drawn, however, to the laws in certain countries governing the transfer of technology pursuant to which an industrial property license or technology transfer agreement will not be approved by the government authorities of the country if it contains a clause extending jurisdiction to make arbitration tribunals in other countries competent.

c. *Judicial Proceedings*

643. Proceedings may be instituted before judicial bodies of a specified country as an alternative to the submission of a matter to settlement by arbitration before designated arbitration tribunals or in accordance with the rules of arbitration referred to previously (see paragraphs 639 and 640). Even in the latter instance, the enforcement of the arbitral award may require recourse to proceedings before judicial bodies (312).

644. The judicial forum of a country to which all disputes (or specified kinds of disputes) between the parties to the industrial property license or technology transfer agreement are to be submitted may also be indicated in the license or agreement.

645. In this respect, it should be noted that, just as in the case of determining the applicable law, questions can arise in determining the country of the judicial forum in which litigation must or may most appropriately proceed. The country whose forum is designated, or another country in which proceedings are instituted despite a different designation by the parties, may be different from the country where the law is to apply. As these questions are not necessarily peculiar to the industrial property licensing or technology transfer transaction, they are not treated in these explanatory notes.

646. Attention is drawn, however, to the laws in certain countries governing the transfer of technology pursuant to which an industrial property license or technology transfer agreement will not be approved by the government authorities of the country if it contains a clause extending jurisdiction to make courts in other countries competent. In addition, under the laws in one of these countries, subrogation by States of the rights and actions of their nationals is not permitted.

(311) If the UNCITRAL Arbitration Rules, referred to in note (310), Example 3, are selected, the following provision may be added to the text of note (310):

(d) The Parties also agree that:

- (i) the appointing authority shall be (name of person or institution);
- (ii) the number of arbitrators shall be (one or three);
- (iii) the place of arbitration shall be (town or country);
- (iv) the language(s) to be used in the arbitral proceedings shall be . . . :

(v) authorization, if considered desirable, for the arbitrators to act *ex aequo et bono* or as *amiables compositeurs*.

N.B. "according to the general principles of law and trade practices and not on the basis of the substantive law of a particular jurisdiction."

(312) See note (310), paragraph (c). See, also, Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, United Nations, *Treaty Series*, Volume 330, page 3.

W. MODIFICATION OR AMENDMENT

(Modification of, or amendment or addition to, the license or agreement due to new circumstances; procedure for revision)

647. As in the case of other commercial transactions, circumstances may arise which dictate that the parties modify, amend or add to the text of the industrial property license or technology transfer agreement that has served as the legal framework for their operations. For instance, a material change in the conditions could occur or events could arise which prevent a performance by one party or the other (see Section O.6, paragraph 510, and Section S.4, paragraphs 573 to 576).

648. In the absence of a prescribed procedure for revision of the license or the agreement, the modification, amendment or addition may have to be concluded in accordance with the same legal requirements applicable to the license or agreement itself (313).

649. In this context, it should be noted that, under the laws in certain countries governing the transfer of technology, the modification of an industrial property license or technology transfer agreement, or any amendment or addition thereto, must be submitted for approval to the government authorities within a fixed time limit after it has been concluded.

X. NOTICES

(Designation of persons or operating units, address, language and means of communication; date of sending or receipt as controlling)

650. It is usual to include in the industrial property license or technology transfer agreement a provision stating the persons or operating units to whom, the address at which, the language in which and the means of communication by which notices required by the provisions of the license agreement are to be sent (314). In some instances also, the provision on notices specifies when and in what condition either party is regarded as having performed his obligation to give notice to the other. As the matter can vary according to the applicable law, the point is clarified in the license or agreement either as to all notices or as to particular types of notices. Sometimes the judgement is made on the basis of dispatch and sometimes on the basis of receipt. The parties will wish to consider the consequences of selecting one basis or the other, giving due weight to the type and number of notices sent by each, and to particular notices requiring special treatment.

(313) Amendments

(a) If any change is required regarding the terms and conditions of this Agreement, then the Licensor and the Licensee shall negotiate in order to find a suitable solution, [provided, however, that any change of this Agreement shall be subject to the approval of the Government of (country of the Licensee).]

(b) This Agreement may be amended or modified only by an instrument in writing of equal formality, signed by the duly authorized representatives of the respective Parties hereto.

(314) Notices

(a) Any notice or request with reference to this Agreement shall be by registered, prepaid air letter, cablegram or radiogram, and shall be directed by one Party to the other at its respective following address or at such other address as either of the Parties may notify to the other in writing.

Licensor	Licensee
Address	Address

(b) [All notices shall be deemed to be given at the time of mailing or at the time of delivery of a cable to the communications company or its agent for transmittal, as the case may be.]

[Notice shall be deemed to be given as of the date of the signing of the return receipt by the addressee.]

Y. EXECUTION

(Contents of the execution clause and its location in the license or agreement; authority of representatives; date of signature and effective date of the license or agreement)

1. Contents of the Execution Clause

651. The execution clause sets forth the legal name of each party, the title of the official signing on behalf of each, the date and place of signature or of each signature in the event that the place and date of each differs, and contains the signatures affixed by the parties or their representatives as well as, where required, the authentication (certification or legalization) of the signature or the signatures by an appropriate attesting authority (315).

2. Location of the Execution Clause in the License or Agreement

652. It is common that the elements of the execution clause figure as the closing portion of the text of the industrial property license or technology transfer agreement. However, they may also appear at the beginning of that text, or on a cover page to which the text of the license or agreement is attached, in which latter event they are usually accompanied by other items of information such as the number and subject of the license or agreement, the addresses of the parties, and other details which may be readily needed for internal control purposes by operating units of one party or the other.

3. Principal Problems in Execution

653. The principal problems which arise in connection with execution concern the authority of the representatives and the time of signature.

a. Authority to Sign

654. The question of authorization to sign can become acute, particularly in dealings with government agencies and institutions inasmuch as certain officials may be authorized only to negotiate the terms and conditions of the license or agreement and others are authorized to execute it on behalf of the agency or institution. Information on the capacity of government officials to negotiate or to sign may be published in an official journal; in some instances it may be necessary that the requisite authority to act be given by a highly placed responsible official and evidence of that authority produced by the signing representative.

b. Date of Signature and Effective Date of the License or Agreement

655. As indicated in another section of these explanatory notes, it is important that the date of signature or signatures be coordinated with the effective date of the license or agreement (see Section A: Introductory Points, paragraphs 121 to 123).

(315) Execution

IN WITNESS WHEREOF the Parties hereto have caused this Agreement to be duly executed in duplicate on their behalf by their duly authorized officers and representatives on the day and year given [above] [below] in a manner legally binding upon them.

WITNESS: _____ Licensor
 by (signature) _____
 Name: (in print) _____
 Title: _____
 Date: _____

WITNESS: _____ Licensee
 by (signature) _____
 Name: (in print) _____
 Title: _____
 Date: _____

EFFECTIVE DATE: _____ (initials on behalf of Licensor)
 (initials on behalf of Licensee)

Z. APPENDICES, ANNEXES, SCHEDULES

(Contents of appendices, annexes, schedules; integral part of the license or agreement; conflicts in wording)

656. In view of the complexity of the subject of an industrial property license or a technology transfer agreement, it may not be possible or advisable to include all the information or to state all the requirements in the text of the license or agreement. The patents and patent applications (316), the trademarks (317), the raw materials, intermediate goods, parts or other components (318), and the equipment (319), are usually listed and described in separate schedules which form an integral part of the text of the license or agreement. Similarly, such matters as the quality, performance and other characteristics of the product (320), the planned capacity of the industrial plant (321), the rate of production (322), and the facilities and services required for production (323), are usually set forth in various appendices or annexes which also form an integral part of the text of the license or agreement.

657. As indicated elsewhere in these explanatory notes, the more detailed particulars contained in such appendices, annexes, or schedules are regarded normally as prevailing over conflicting expressions in other parts of the text of the license or agreement (see Section V: Settlement of Disputes, paragraph 620 and note (292), *supra*). For this reason, and in view of the fact that the detailed information and the stated requirements in such appendices, annexes, or schedules will be immediately referred to in the execution of the transaction, they must be prepared with care and scrutinized to ensure that their contents conform to the objectives to be attained by the parties.

(316) See note (25), *supra*.

(317) See note (29), *supra*.

(318) See note (53), *supra*.

(319) See note (44), *supra*.

(320) See note (137), paragraph (ii), and note (148), *supra*.

(321) See note (137), paragraph (v), *supra*.

(322) See note (156), *supra*.

(323) See note (151), paragraph (a), *supra*.

PART IV

CHECK-LIST
OF
POINTS

PART IV
CHECK-LIST OF POINTS

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