

Transfer of Technology with Intellectual Property Rights (IPR)— The Philippine Experience

Lydia G Tansinsin†

Graduate School of the University of Santo Tomas, Manila and former Cabinet Assistant Secretary,
Department of Science and Technology (DOST), Bicutan, Taguig, MM

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The article deals with the Philippine experience in technology transfer or Technology Licensing Agreements (LTA) earlier practised and the present system of implementation. This also includes commercial application of transfer of technology, and the commercialisation of results of research with intellectual property rights.

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Historically, intellectual property regime in the Philippines was introduced during the five decades of Americans occupation essentially to protect the technologies that Americans brought to the Philippines, particularly in the manufacturing industry related to foods and cosmetics. During this period, rules and regulations in the Philippines were essentially policies of the United States of America.

The Philippines became independent on 4 July 1946. Even under the Filipino government, the American interests continued to be well protected.

The Patent Office in Philippines was established in 1947 and in the same year an act relating to registration and protection of trademarks, trade names and service marks, defining unfair competition and false marking and providing remedies against the same, and for other purposes was passed and approved.

On 5 June 1951, Congress passed Republic Act (RA) No 632, entitled, 'an act to regulate the use of duly stamped or marked bottles, boxes, casks, kegs, barrels and other similar containers.' However, there was an exception granted to small businesses for the re-use of containers for native products without permission from the original owner.

Later on in 1953, utility model (UM) was included in the patent system.

In 1975, Pres Marcos issued Presidential Decree (PD) No 721 which expanded the mandate of the Philippine Patent Office (PPO) adding two divisions, namely, legal services, and research information division. Mandate of PPO was expanded and Republic

Act (RA) Nos 165 and 166 were amended by increasing the required fees to be paid by the inventors but exempted indigenous inventors. It also, shortened the period of compulsory licensing from 180 days to 120 days, provided the project is approved by the Board of Investments (BOI).

In 1982, PPO reorganized and merged related divisions and renamed them as the chemical division and the mechanical and electrical examining division, respectively.

Videogram Regulatory Board was created in 1985.

Laws and Issuances on Technology Transfer

Various laws and issuances on technology transfer came into force over the period of 2 decades, recognizing the importance of IP and to accelerate the promotion of IPR in the country. Philippines also has a law to provide protection to plant varieties passed in 2002.

Prior System of Implementing Technology Transfer

Prior to the establishment of agencies and policies implementing transfer of technology, this particular activity was not regulated. During that time, the Board of Investments (BOI) and the Central Bank (CBP) were only screening and monitoring the foreign exchange remittances made by registered industries at the BOI.

Thus appropriate guidelines were needed to protect and control the outflow of foreign exchange from the Philippines, especially those industries that were extended BOI incentives. Furthermore, technologies that were being transferred to the Philippines must be

†Email: lgtansinsin@mydestiny.net

screened and evaluated because at that time two questions or issues stood out: (i) whether the royalties paid in foreign exchange was commensurate with the technologies brought into the Philippines and (ii) whether the patented technology was still within its patent life-time.

Thereafter, all industries were required to register Technology Transfer Arrangements (TTA) in accordance with the guidelines formulated by BOI and Central Bank. At that time, technology transfer arrangements were specified as follows:

- 1 The transfer, assignment of licensing of the use or exploitation of patents (whether registered with the Philippine Patent Office or not) for inventions, improvements, industrial models and drawings;
- 2 Licensing of the use or exploitation of trademarks;
- 3 Furnishing of technical knowhow and information by plans, diagrams, models, instruction sheets, instructions, formulae, specifications and training of personnel;
- 4 Technical consultancy, services and assistance in whatever from it may be furnished.

In order to evaluate agreement, the Board was guided by policy guidelines of Technology Transfer Rule (TTR). An interagency committee was also formed with agencies that are relevant to the mandate and function of the objective of the TTR. One of the agencies included is the National Science and Development now known as the Department of Science and Technology (DOST). The rules included the following:

- 1 Appropriateness and need for the technology/ industrial property right.
- 2 Reasonableness of the technology payment in relation to the value of technology to the technology recipient and the national economy as well. For this purpose, rate of payment for contracts involving manufacturing or processing technology shall not go beyond the rate that will be established by the Board for the specific technology or industrial right to be transferred.
- 3 Restrictive clauses shall not be allowed to any agreement; specifically, the following clauses shall be prohibited.
 - 3.1 Those, which restrict the use of technology, supplied after the expiry of the

agreement (without prejudice to the application of the Philippine patent law).

- 3.2 Those, which require payments for patents and other industrial property rights after their expiration, termination or invalidation.
- 3.3 Those, which restrict the technology recipient from access to continued improvements in techniques and processes related to the technology involved during the period of the agreement, even if the technology recipient is willing to make additional payments thereon.
- 3.4 Those, which provide that patentable improvements made by the technology recipient shall be patented in the name of the technology supplier; required to be exclusively assigned to the technology supplier; or required to be communicated to the technology supplier for use, free of charge.
- 3.5 Those, which require the technology recipient not to contest the validity of any of the patents of the technology supplier.
- 3.6 Those, which restrict a non-exclusive technology recipient from obtaining patented or unpatented technology from other technology suppliers with regard to the sale or manufacture of competing products.
- 3.7 Those, which require the technology recipient to purchase his raw materials, components and equipment from the technology supplier or a person designated by him (except where it could be proven that the selling price is based on international market prices or the same price that the supplier charges third parties and there are no cheaper sources of supply).
- 3.8 Those, which restrict directly or indirectly export of products manufactured by the technology recipient under the agreement.
- 3.9 Those which limit the scope, volume of production or the sale or resale prices of the products manufactured by the technology recipient.
- 3.10 Those, which limit the research activities of the technology recipient to improve the technology.

- 4 The agreement shall provide that the law of Philippines shall govern the interpretation of the contract.
- 5 The agreement shall provide for a fixed term not exceeding five years and shall not contain an automatic renewal clause in order to ensure adequate adaptation and absorption of technology.

These policy guidelines were later modified by the new Implementing Rules and Regulations (IRR) in accordance with IP Code.

Implementation of Intellectual Property Code on Transfer of Technology

All transfer agreements must confirm to regulations in IP Code. Rule 2 of IRR enumerated prohibited clauses pursuant to Section 8, and revised them as follows:

- 1 Those, which impose upon the licensee, the obligation to acquire from a specific source capital goods, intermediate products, raw materials, and other technologies, or of permanently employing personnel indicated by the licensor.
- 2 Those pursuant to which the licensor reserves right to fix sale or resale prices of the products manufactured on the basis of license.
- 3 Those that contain restrictions regarding volume and structure of production.
- 4 Those that prohibit use of competitive technologies in non-exclusive technology transfer arrangement.
- 5 Those that establish a full or partial purchase option in favour of licensor.
- 6 Those that obligate licensee to transfer for free to the licensor the inventions or improvements that may be obtained through the use of licensed technology.
- 7 Those that require payment of royalties to the owners of patents for patents which are not used.
- 8 Those that prohibit licensee to export licensed product unless justified for protection of legitimate interest of the licensor such as exports to countries where exclusive licenses to manufacture and/or distribute the licensed products(s) have already been granted.
- 9 Those which restrict use of technology supplied after expiration of technology transfer arrangement except in cases of early termination of technology transfer arrangement due to reason(s) attributable to the licensee.
- 10 Those which require payments for patents and other industrial property rights after their expiration or termination of the technology transfer arrangement.
- 11 Those, which require that technology recipient shall not contest validity of any patents of the technology supplier.
- 12 Those which restrict research and development activities of the licensee designed to absorb and adopt transferred technology to local conditions or to initiate research and development programmes in connection with new products, processes or equipment.
- 13 Those which prevent the licensee from adapting imported technology to local conditions, or introducing innovation to it, as long as it does not impair the quality standards prescribed by the licensor.
- 14 Those which exempt the licensor from liability for non-fulfillment of his responsibilities under technology transfer arrangement and/or liability arising from third party suits brought about by the use of licensed product or licensed technology.

The Technology Transfer Regulations Office (TTRO) exercises jurisdiction over parties in an agreement and a foreign-owned company covering new or renewal of licensing. Technology Licensing Arrangements (TLA) may provide either (i) royalty payments in whatever currency or (ii) royalty-free contracts. The agreements under the rules of procedure may cover manufacture of a product, application of a process, rendering of a service, licensing of customized computer software programs, and transfer, assignment or licensing of all forms of industrial property rights.

Arbitration also takes place according to the IP Code.

Registration of licensing agreements may be voluntary or involuntary under the IP Code, Registration should be done by parties concerned to protect their rights in the event of any disagreement/s between the parties in the future.

However, there are instances when registration is required if there is a request for the exemption from Section 87 and 88 of the IP Code, records of TLA with IPO and other legal purposes. Also, the focus of evaluation if registered at the IPOPHIL is the anti-competition and trade practices.

IPOPIL-Technology Transfer Registry Office (TTRO) assists the prospective licensee in their negotiations with the licensor who may be experienced as compared to the former.

It is important that the licensee must avoid the above provision on prohibited clauses, if assistance is requested from IPO TTRO. Furthermore, in negotiating for the royalty, the IP Code has liberalized this aspect. But as per transfer technology regulation policy, IPOPIL requires an extensive evaluation of fees beyond 5% of net sales if IPOPIL is involved.

The effect of non-registration of technology transfer with IPO-TTRO is that the agreement between the licensor and licensee is unenforceable on third parties as per Section 92 of IP Code.

Registration in the IPOPIL-TTRO is classified into four categories for: (1) pre-clearance (2) exemption (3) compliance, and (4) clearance prior to recordal of TLA. Although registration is voluntary, most agreements are registered for the benefits attached to it after certain requirements are submitted and corresponding fees are paid.

Technology Transfer with IPR

By Private Individuals

A few success stories on IP in Philippines in the 'Getting ahead with IP' published by IPOPIL and the Asia-Pacific Economic Cooperation (APEC) are:

Carbonless Paper Technology

After falling victim to a cartel of carbonless paper manufacturers, Mr Johnson Fong decided to do his own research and development (R & D) to produce his own carbonless paper for the Philippine market. In the mid-70s, the prevailing patented technology for the production of carbonless paper used pigskin gelatine.

Mr Fong experimented with the use of cow bone gelatine. His persistence paid off and he and his R& D team produced better carbonless paper with more stable microcapsules. He technology is capable of copying up to seven pages under the original document. This carbonless paper also has security features that reduce the chances of tampering the original document.

Mr Fong's 'Multi-forms Corporation' using cow-bone gelatine grew and demand for his carbonless paper increased. He filed applications for patents and utility models (UM) to protect his invention. After

getting patents, he expanded his market through licensing agreements with companies in other countries.

Another success story is the flute technology.

Flute Technology

Mr Dante Ursula, once-aspiring sax-player sold his bamboo flutes outside the original SM Carriedo building, and played them for passers-by. It took him ten years to perfect the process of manufacturing his flute. In 1999, Mr Ursua put up the Kingflute Philippines Inc. To protect his flute from copycats, he sought utility model protection with IPOPhil. He succeeded and went into retail business and sold his flutes. This led him enter international market, by being able to license his flute technology to Kingflute USA LLC, a company based in New Jersey, USA.

By Researchers from R & D Institutes

Researchers/scientists from the different Philippine universities and research institutions have applied for intellectual property rights at IPOPIL. Some were successful in receiving the patent awards for their research outputs and inventions. With patent certificate, the research agency was able to enter into a TLA with the interested party.

An example is the license agreement entered into between the Philippine Council for Health Research and Development (PCHRD) of the Department of Science and Technology (DOST), representing the researcher/scientist for the manufacture of 'Lagundi pediatric syrup' for cough remedy and control of asthma. Pascual Laboratories is the company licensed and now commercializing the patented medicines, which use 'Herba Buena', and 'Sambong' herbal plants that are abundant in the country. Another company, Grupo Medica and Lloyd Laboratory was licensed to manufacture 'Sambong tablet' and 'Lagundi tablet'.

However, in some cases the invention or utility model has to be tested by the licensee. This practice is quite disadvantageous for the Filipino licensor because obviously confidential information will be leaked if not totally divulged. The Filipino licensor may be not aware of the risk involved in such arrangements.

This kind of arrangement was imposed by a manufacturer for the preparation of a pharmaceutical product. Time passed but the manufacturer did not give any feedback on the test results made. The researcher/scientist tried to contact the prospective li-

censee for the final TLA. But their efforts are still futile because the manufacturer has not communicated with the licensor.

This is the risk of entering TLA or technology transfer, especially those without assistance from patent experts. The researcher/scientist may eventually have to run to the courts for protection. But this is costly and time-consuming. It may even result in a pyrrhic victory for the licensor because by the time the favourable decision becomes final and executory, the product may already be obsolete.

Conclusion

The IP Code, technology transfer and TLA seek to protect the intellectual rights of the inventors (researchers, scientists, engineers) and even the musicians and lyricists. They are responsible for the creation or development of knowledge that will be eventually converted into processes to manufacture industrial and consumer products for the good of the Filipinos and also the foreigners.

Presently, most sectors (specially of manufacturing industry and the educational group) actively follow,

pursue and advocate IP Code, IPR and LTA. Now, they have realized the protection provided by law and LTA which gives them the financial success that they should have attained earlier but failed to obtain.

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