Technology Transfer and the Intellectual Property Issues
Emerging from It – An Analysis from a Developing Country Perspective

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The exploitation of technological knowledge is central to the development process. Less developed economies typically obtain this knowledge from more advanced ones rather than by creating it themselves. Transfer of technology is the transfer of a patent with respect to a particular product, which is patented. The product of technology is mixed up with the technology itself. No effort is made to make a distinction between the two. This paper attempts to clarify the meaning of technology transfer and what it actually transfers and elaborates on the modalities of technology transfer agreement and the various types of the same. It also deals with the situation where there is a loss of confidentiality and elaborates on its effect on the liabilities of the contracting parties in various jurisdictions. The article also attempts to deal with the various intellectual property issues involved in technology transfer and attempts to analyse things from a developing country perspective.

Keywords: Technology transfer, Intellectual property, Developing country, Know-how, Patents, Trademarks, Franchisee, North – South technology transfer

The exploitation of technological knowledge is central to the development process. Less developed economies typically obtain this knowledge from more advanced ones rather than by creating it themselves. This is to be expected, given the vast pool of foreign technological knowledge available to them for exploitation. Transfer of technological and know-how licensing are the means of acquiring foreign technological knowledge and can consequently play an important part in the development process. With the accelerating pace of development in developing countries, the need for import of advanced technology or appropriate technology, as the case may be, has become a sine qua non for maintaining the levels of development and to ensure that they do not suffer from either stagnation or retardation.

The question of transfer of technology or know-how licensing has been given paramount importance by various writers with a view to: (i) developing the eco-
nomic standard of those nations which lack technology, or (ii) transferring or spreading knowledge. One component in a technology transfer transaction could involve intellectual property issues and these need to be attended to at the time of entering into an agreement.

The transfer of a patent with respect to a particular product, which is patented, is called the transfer of technology. The product of technology is often mixed up with the technology itself and no effort is made to make a distinction between the two. The following excerpt clarifies the true position.

“The patent system has been claimed to be one of the ways of facilitating the transfer of technology from the industrialized North to the less developed countries of the South. It is by no means the only way in which this can be done. For one thing, not all technology is patented. Also, quite often before a patented process can be successfully worked there is need for the transfer of unpatented know-how along with the technology covered by the patent. Besides, it is not the patent itself which enables the transfer of technology, rather by making the title and exclusive rights of the patentee secure, it emboldens him to transfer his technology to others for commercial exploitation. Nevertheless, the patent is an important factor in the technology transfer process.”

The purpose of this paper is to examine various modes of technology transfer. The other issues that will be discussed in this paper in the light of intellectual property rights are in regard to:

(i) What happens when know-how that has been licensed loses its confidentiality?
(ii) The licensing of know-how and patents in one agreement.
(iii) Most-favoured licensee provisions.
(iv) Package licences.
(v) Grant back and grant forward clauses.

What Does Technology Transfer Actually Transfer?

The precise meaning of technology transfer depends critically on the stage of development of the importing nation. The word ‘technology’ suggests blueprints or formulae that, once obtained, guarantee more or better outputs from given productive inputs. The technology gap that separates the North from the South is overwhelmingly a difference in available know-how – that is, practical and conceptual skills embodied in the national labour force of a society. For Southern technology imports, it is often appropriate to substitute the term ‘know-how’ for technology.

Of the body of economically useful knowledge that supports modern industrial production, only a small fraction is protected by patents or even by trade secrets. Greater fraction is in the public domain. Transfer of know-how is largely a question of training and teaching sometimes accomplished through formal educational programmes and international exchanges, but usually through informal learning by doing and on-the-job training. This point is critical to the debate over the North-South technology transfer because while knowledge in the sense of blue-
prints and formulae is indeed essentially a public good and can be made available to additional users at a marginal social cost near zero, the same is not true for training and teaching, activities that absorbs valuable resources. Where a high component of know-how is essential for consummating the transfer, the social cost of extending modern technology is likely to be significant.

That training and skill acquisition are at the heart of the technology transfer issue which is corroborated in a number of ways. First, the key role of labour force education levels has been widely acknowledged in the literature of economic development; the link of education to diffusion rates for new technology within a given country has been established empirically. Second, both the rhetoric and the policy focus of national regulation have been to increase the extent to which nationals are trained to participate in every stage of local production processes employing imported technologies. While this requirement is usually embedded in calls for “increased national sovereignty” and “breaking of neocolonial ties”, the central issue at the practical level is how many nationals will be trained to do what. Third, the preferred Southern term for the “brain drain” – emigration of skilled workers and professionals – is “reverse transfer of technology.” This is apt nomenclature; access to modern technology benefits a developing nation only to the extent that some person has the knowledge to implement it.

**Modes of Transfer of Technology**

Technology can be transferred to third parties through the transfer of the property rights on the technology, or by the granting of a user’s licence. Technology covered by patents has a territorial protection. In principle, a separate patent has to be taken out in each country for one and the same invention and the exclusive right is in each case valid for that particular country. Many patent holders do not wish (or do not have the financial means) to exploit their invention in all countries where they enjoy patent protection. The transfer of property or user’s rights in respect of their national patents is, thus, a classic way to exploit the invention.

Transfer of technology takes place in a large number of ways and often incorporates not only the translation of technological knowledge into information about operational processes but other elements as well. Among the simplest forms of transaction are contracts for the services of individuals or consulting companies to provide individual elements of technology – for example, to undertake specific design or process engineering tasks, to give technological assistance during various phases of the establishment and operation of a plant, or to provide technical information services. Other transactions include licensing and trademark agreements that transfer particular proprietary product and process designs. The most commonly used modes of technology transfer are licence agreement, technical assistance agreement, patents and patent agreement and know-how agreement. Among the other modes of technology transfer and know-how licensing, the most popular ones are the engineering services agreement, the trademark
agreement\textsuperscript{12} and the franchise agreement\textsuperscript{13}.

**What is Know-How?**

Know-how is an entirety of technical information\textsuperscript{14}, which is secret, substantial and identified\textsuperscript{15}. The following paragraphs highlight various characteristics of ‘know-how’:

1. This information must be secret. The know-how must not be known or easily accessible in its entirety, or in the context or composition of its components. After all, an essential part of the value of know-how exists in the advantage it gives its owner over his competitors. However, ‘secret’ does not mean that each separate component of the know-how must be completely unknown or unavailable outside the enterprise of the owner of the know-how.

2. Furthermore, the technical information must be essential. This means that it has to be of significance to the production process or to a product or service. The know-how must therefore be useful in the sense that it improves the competitive position of the owner as regards, for instance, access to new markets.

3. The know-how must be properly identified, i.e. described or otherwise established in such a way that it can be verified that it satisfies the criteria of secrecy and substantiality. This condition is particularly important for the transfer of proprietary or user rights in respect of know-how. A description, either in the contract or in a separate confidential document, is obviously necessary for the transfer of ownership or the granting of a licence.

The law does not grant an exclusive right for know-how. In some cases know-how may be protected as ‘trade secret’, in some cases also by the law on unfair competition. In practice, it is for the owner of know-how to protect the secret nature of his technological knowledge by an adequate contractual requirement of confidentiality.

**Loss of Confidentiality of Know-How**

In this regard the following issues assume importance:

— If a licensor may continue to receive royalties on know-how, if the know-how loses its confidentiality?

— What happens if the licensee destroys the confidentiality?

**US Position**

Under the US law, parties may agree by contract to pay royalties beyond the life of a trade secret or know-how\textsuperscript{16}. In regard to the manner in which the confidentiality is lost, the terms of the agreement would regulate the position. If the confidentiality is lost through an act or omission of the licensee, then the licensor may be able to terminate the agreement and sue the licensee for breach of its obligation to maintain confidentiality. Even if there is no explicit provision, a duty may be implied\textsuperscript{17}. If the loss of confidentiality is not the licensee’s fault, then to reap the benefits of this loss, it should have nego-
tiated a provision that allows it to terminate the agreement once the know-how in question is no longer proprietary. Parties are generally held to their agreements with regard to know-how and trade secrets. The violation of the licensee’s duty not to disclose may not only be a breach of contract, but may also be a tort under the Uniform Trade Secrets Act, or (in certain situations) could even lead to criminal prosecution.

EU Position

In the European Union, the most important legislation is the Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article 85(3) of the Treaty to certain categories of technology transfer agreements. This is also referred to as the Group Exemption Regulation – Technology Transfer.

Thus, in the European Union, a licensor may continue to receive royalties on know-how after confidentiality of know-how has been destroyed only under the limited circumstances where one would be able to argue that this is to facilitate payment. It is however, highly recommendable to provide a basis in the sense as to illustrate the computation on which the calculation is based, even if it is merely one computing percentages. One should reduce the risk that in a later litigation the licensee can argue that this royalty, or at least the amount thereof, has been caused by an extension of a patent’s duration to a period where the licensor has no exclusivity left.

The exemption is limited to situations where the loss of confidentiality by breach of contract by the licensee, the GERTT (Group Exemption Regulations on Technology Transfer) specifically mentions that this exemption is without prejudice toward the right of licensor to collect damage for this breach.

Australian Position

At Common Law where unmodified by statute, a licensee may continue to pay royalty on know-how after confidentiality is lost, unless a restraint of trade results. Where a restraint of trade is found to exist, the question becomes whether the restraint is reasonable, having regard to the public interest and the legitimate interests of the parties concerned.

An important recent development in this area in Australia was the decision of the Australian High Court in Maggbury (M) Pty Ltd v Hafele (H) Australia Pty Ltd. M owned rights to an invention being a wall-mounted ironing board. M filed a patent application. H wanted to assess the invention and M required a confidentiality agreement. The confidentiality obligation was perpetual and covered all information disclosed, shown or provided by M. The purpose was restricted to assessment of M’s proposal. H’s lawyer looked at M’s PCT application (supplied by M) and concluded that protection would be weak. H produced its own ironing board having “strikingly similar” features to the M product (but which may not fall within any claims ultimately granted to M).

The majority declined to read down the clear language of the confidentiality agreement to cover only information that
is actually confidential, while it is confidential. It was not clear in the confidentiality agreement, which of the information given in the PCT are actually confidential or whether all the information furnished by M was actually confidential or has to be treated as confidential because of the existence of a confidentiality agreement between M and H. in other words which part of the information shall be considered to be in public domain and thus can be used by H was not clear. Thus if the agreement completely debars H from using any information, the nature of which is not clear is a restraint of trade. Thus, the agreement was a restraint of trade and unenforceable. The majority thought it would be difficult to justify the restraint even if M had tried to do so.

In general, at common law:

— A know-how licence expressed to last only for as long as the know-how remains confidential is not a restraint of trade.

— A know-how licence expressed to last forever and / or to cover information that is plainly not confidential is, a restraint of trade if it has a real inhibiting effect on the retrainee’s freedom to act in trade.

— A know-how licence for a term that does not allow the licencee to cease royalty payments if the know-how ceases to be confidential is probably not a restraint of trade if it allows the licencee to keep using the know-how. If the royalty is enough to impose what amounts to a restraint, it may be justified as reasonable as a “spreading out” of what would otherwise be an upfront payment.

Further, it seems that a licence not expressed to be for any particular term will be impliedly terminable on reasonable notice if the right is potentially indefinite but not if the right is finite.

It is normally implied in a know-how licence that, on the expiry of the term, the licensee will be free to use the know-how without paying a royalty. An express covenant to cease use of the know-how on termination or expiry of the licence may be unenforceable as a restraint of trade.

It does not matter how the confidentiality is lost, in that the restraint imposed by a post-disclosure restriction or royalty requirement would be unreasonable if it applied where the licensor destroyed confidentiality. This would in any event be likely to be a breach of an express or implied term. If the confidentiality is destroyed by the licensee, then as a matter of contract law the licencee could not rely on its own breach to be relieved of its obligations under the contract. The licensor could terminate, sue for its expected royalty stream from the licencee, and for its loss of ability to further exploit the confidential information.

**Hybrid Agreements**

The points to be considered are:

— Whether patents and know-how may be licenced in one agreement? and
If an unchanged royalty structure may be used after the last patent has expired and royalties are only based on the know-how.

**US Position**

Like patents, know-how may be licensed. A licence agreement combining rights to patents and to know-how is quite common. However, the combination raises certain additional legal issues. In particular, one authority believes “it is indispensable for the parties to allocate royalty and other consideration to the licenced right to which it is properly allocable”.

A licence agreement that requires payment of patent royalties after the last patent has expired has been held to be per se misuse. A licence agreement that extends beyond the term of the licensed patents is unenforceable. In contrast, parties may agree by contract to pay royalties beyond the life of a trade secret or know-how.

For these reasons, allocation of royalties between the patents and know-how is recommended, so that an appropriate reduction in royalties will occur after all patents have expired.

**EU Position**

The GERTT has been specifically written to accomplish this goal. The clauses there foreseen as not requiring individual exemption by the EU Commission include patent and know-how licences. It is generally accepted that it is safer and preferable to have a lower royalty rate after the last licensed patent expired and only know-how remains as the licensed subject matter. In practice this adds to the complexity of negotiating a deal. If no provision has been made in the contract for such a situation then the question of a reduction of royalties based on contract and antitrust law depends upon the importance of the know-how for the activities of licensee, so that in a given case the royalty may remain as agreed upon.

Under the GERTT, the obligation of the licensee to continue paying royalties over a period going beyond the duration of the licensed patents is possible under Article 2(1) 7b, if it facilitates payment.

**Australian Position**

Patents and know-how may be licensed in one agreement, but subject to the provisions of section 145 of the Australian Patents Act, which states: “a contract relating to the lease of, or a licence to exploit, a patented invention may be terminated by either party, on giving three months’ notice in writing to the other party, at any time after the patent, or all the patents, by which the invention was protected at the time the contract was made, have ceased to be in force”.

This was taken from the original Section 58 of the 1949 UK Act. Taken literally, the effect of the section is that the cessation of one patent, in a licence agreement covering patents and know-how, will lead to entire agreement becoming terminable. It could also lead to termination of a multi-patent, multi-country licence because one patent ceases.

Patents and know-how licence streams should be separated, and the agreement structured such that the patent licence can
be terminated without affecting the balance of the agreement. The term of the licence of a patent should expire when the patent expires or is revoked.

An unchanged royalty structure could probably be used even after the last patent has expired and royalties are only based on the know-how. Most licences between parties will specify a lower know-how royalty where there is no patent or where the patent has expired. But if a licensee agrees to pay X% where there is a patent and X% where there is real know-how, that would be unlikely to be a restraint of trade or otherwise invalid, at least if the know-how actually exists and is confidential.

**Most-Favoured Licensee Provisions**

In this part, the points of consideration are:

—Whether a most-favoured licensee provision is generally accepted?

—Whether a most-favoured licensee clause is suitable in a cross-licence scenario and how it would apply to a subsequent licence?

—Whether a most-favoured licensee clause applying to financial terms only is permissible and would such a clause be practical?

**US Position**

Where a licensor is granting a non-exclusive licence, there is no legal requirement that the licensor must grant identical terms to subsequent licensees. Indeed, a subsequent licensee may be able to negotiate better terms from the licensor. Therefore, it is very common for a non-exclusive licensee to seek to protect its competitive position against this possibility by obtaining a “most-favoured licensee” clause in the agreement.

The most common practical problem with most-favoured licensee clauses is determining when they are triggered, i.e. whether the subsequent licence is really “more favourable”. If the subsequent licence does not differ from the first licence except for the financial terms, then this is usually easy to determine. But if other terms of the licence also vary then it is harder to tell whether different financial terms really reflect a “more favourable” agreement. Also, if the subsequent licence is part of a broader deal in which the licensor is also receiving other consideration from the licensee (which may not be in financial form), then the two transactions may not be readily comparable.

In regard to the question whether a most-favoured licensee clause would be suitable in a cross-licence scenario and how it would apply to a subsequent licence, the answer would again depend on how the clause is drafted. However, the question suggests that different consideration is being received under the two different cross-licences (even though they are both for the same patent and know-how), so that the two licences may not be really comparable.

A most-favoured licensee clause based on financial terms only would be permissible but it is unlikely since it creates risks for both parties. The licensor’s risk would be that the clause might be triggered by a later agreement offering better financial terms even if the two transactions were really very dissimilar because
the licensor was receiving other, non-financial benefits under the later transaction. The licensee’s risk would be that the licensor might be able to avoid giving the first licensee the benefit of more favourable terms, by claiming that the two deals had identical financial terms, even where the later licensee was receiving other benefits from the licensor.

Such a clause might be practical in the limited sense that it would be easy to administer. However, it would be unrealistic and therefore unlikely to appear in a licence agreement.

**EU Position**

Article 2(1) 10 specifically provides an exemption broadly in regard to a most favoured licensee provision. The general comments above in regard to the US position from a practical standpoint also apply to the European Union. Thus, such a provision will either not be accepted by one party, or is worthless, because it can be circumvented by the fact that the consideration as a whole is not comparable. Would a most-favoured licensee clause applying to financial terms only be permissible? Yes, but it would not be normally granted by a licensor.

**Australian Position**

A most-favoured licensee clause is generally accepted in Australia. There has been no authoritative judicial consideration of most favoured licensee provisions. A most-favoured licensee clause applying in financial terms only would be permissible as a matter of law, but it is hard to see this being agreed in practice as the other terms may be completely different.

**Package Licences**

In this regard the points to be considered are:

— Whether more than one patent may be licenced in a single agreement?
— Whether a licensor may tie one patent licence to a different patent licence?
— Whether a licensor may charge a royalty for a group of patents, regardless of how many of these patents the licensee needs and uses?

**US Position**

Before the enactment of 35 USC § 271(d) (4) and (5), several cases were viewed as holding that it was *per se* patent misuse for the owner of a patent to condition the grant of a licence under one or more desired patents on a requirement that the licensee also takes a licence under other patents that the licensee did not want. However, the amendment of 35 USC § 271 in 1988 added two new subsections that directly address this issue:

“No patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following:

— Refused to licence or use any rights to the patent, or
— Conditioned the licensee of any rights to the patent or the sale of the potential product on the acquisition of a licence to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the
patent or patented product on which
the licence or sale is conditioned.”

Thus, the current state of the law is that mandatory package licensing of patents may still be subject to a misuse defence, but any inquiry will be conducted on a “rule of reason” basis. However, tying arrangements remain illegal under § 1 of the Sherman Act and § 271(d) (5) of the 35 USC might not shield a patent owner from the antitrust based claims.40 The addition of a minimum use obligation in the unwanted licences makes this arrangement appear more questionable and would require some special justification.

In general, a licensor who insists on an arrangement where the licensor charges a royalty for a group of patents regardless of how many of these patents the licensee needs and uses, must be able to justify it under a rule of reason analysis. One possible justification may exist where the licensor has a very large portfolio of patents and the licensee freely agrees to pay a royalty on its total sales because of the difficulty in determining exactly which of the licensed patents it is using.42

However, conditioning the grant of a licence on an agreement to pay royalties based on total sales regardless of actual use of the patent was held to be per se misuse by the Supreme Court in Zenith Radio Corporation v Hazeltine Research, Incorporated.43

**EU Position**

GER TT does not address the issue whether more than one patent can be licensed. It is understood and also follows from the frequent use of the plural form of ‘patents’ in the GERTT. Forcing royalty bearing licence for non-necessary patents with conflict probably with or not be exempted by Article 2(1) 5 of the GERTT, which allows tying only in case of necessity for product quality standards, set by the licensor.

To force a licensee to license and pay for other patents is possible only under the limited conditions mentioned in Article 2(1) of the GERTT, and it is otherwise not permissible to tie one patent licence to a different patent licence, particularly with minimum use obligations for the tied in patent. Otherwise it would constitute an antitrust violation. But this is of little practical importance, since the royalty can be negotiated freely just like a lump sum.

A licensor may charge a royalty for a group of patents regardless of how these patents the licensee needs and uses, unless a violation in the sense mentioned above occurs.

**Australian Position**

More than one patent may be licensed under a single agreement, but it may be preferable to actually or notionally separate the licences due to section 145 of the Australian Patents Act. An arrangement in which a licensor ties one patent licence to a different patent licence, particularly with a minimum use obligation for the tied in patent licence, may involve a contravention of the Trade Practices Act if the condition has the purpose or effect of substantially lessening competition in the market. A bundling condition may be exempted from the relevant provisions of the Trade Practices Act if the tied in pat-
A licensor may charge a royalty for a group of patents regardless of how many of these patents the licensee needs and uses, unless the requirement constitutes bundling that does not pass the competition test.

At common law it has even been held permissible for a licensor to continue to receive a royalty after expiry of some of the patents, even if the products sold by the licensee no longer infringe the remaining patents.

**Grant–Back And Grant–Forward Clauses**

In this regard the points to be considered are the permissibility of grant-back and grant-forward clauses, the acceptability thereof, and, in particular, whether reciprocity is necessary.

**US Position**

The current position is that grant-back clauses will be evaluated under a rule of reason approach:

A grant-back is an arrangement under which a licensee agrees to extend to the licensor of intellectual property the right to use the licensee’s improvements to the licensed technology. Grant-backs can have pro-competitive effects, especially if they are non-exclusive, such arrangement provides a means for the licensee and licensor to share risks and reward the licensor for making possible further innovation based on or informed by the licensed technology, and both promote innovation in the first place and promote the subsequent licensing of the results of the innovation. Grant-backs may adversely affect competition, however, if they substantially reduce the licensee’s incentives to engage in research and development and thereby limit rivalry in innovation markets.

Despite the narrow holding approving an assignment-back in *Transparent Wrap Mach Corp v Stokes & Smith Co*, it is clear that a non-exclusive grant-back provision will generally be more defensible than an exclusive grant-back or assignment-back. The licensor will also improve its position by limiting the grant-back to the scope of the licensed technology and by limiting the duration of the grant-back obligation to the life of the licence.

A grant-forward clause is permitted under US law and, in fact, commonly occurs in many patent licence agreements. It is sometimes found as a separate grant clause, but can also be included in the basic grant clause. It is somewhat less likely to occur with respect to know-how licensing because know-how licences are often tied to specific performance warranties that are based on the current state of the know-how.

**EU Position**

The GERTT in Article 2(1) specifically exempts from the threat of antitrust law violation “…an obligation on the licensor to grant to the licensee a licence in respect of his own improvements to or his new applications of the licenced technology, provided:

—that, in the case of severable improvements, such a licence is not exclusive, so that the licensee is free
to use his own improvements or to licence them to third parties, in so far as that does not involve disclosure of the know-how communicated by the licensor that is still secret, and

— that the licensor undertakes to grant an exclusive or non-exclusive licence of his own improvements to the licensee…”

Unilateral grant-back clauses would not be exempt. The exception only applies provided “…that the licensor undertakes to grant an exclusive or non-exclusive licence of his own improvements to the licensee…”.

The licensor can thus make a more limiting (grant-forward) promise. He is regarded to have the power and can thus limit himself further. Grant-back clauses are permitted only if mutuality is provided51.

Grant-forward clauses are permitted, in which the licensor grants the licensee a licence under future inventions, patents, or know-how of the licensor, if mutuality is provided. Licensor can promise exclusive grant-forward.

Australian Position

Clauses are permissible where the licencsee promises a grant-back to the licensor, subject to the doctrine of restraint of trade and the general prohibition in the Australian Trade Practices Act on any agreement having the purpose or effect of substantially lessening competition in the market.

Grant-forward clauses are also permitted, in which the licensor grants the licencsee a licence under future inventions, patents, and know-how of the licensor, again subject to the doctrine of restraint of trade and the general prohibition in the Australian Trade Practices Act on any agreement having the purpose or effect of substantially lessening competition in the market.

Reciprocity of grant-forwards and grant-backs is not explicitly required, but reciprocal grants may be easier to justify if challenged as a restraint of trade or as being contrary to the Australian Trade Practices Act.

Technology Transfer and Developing Countries

Patents and trademarks are the means of controlling and organizing the right of intellectual property both in the economic and social sense. They are not the means of transferring technology unless it is taken to mean in terms of finished products of technology. Therefore, if a country wants to improve its technology, it cannot get technology transferred through patents or trademarks. It must develop its own technology. Hired or borrowed technology through patents or trademarks cannot become the basis of the development of any nation. Easy access to technology creates disincentives to local research and development programmes. Such disincentives use indirect cost, both politically and socially. If developing countries keep on buying technology, this will stagnate the development of the developing countries. The developing countries have failed to catch up with the developed countries or one can say with the technologically advanced countries. Therefore, developing countries need a
fundamental change in their outlook towards the question of transfer of technology.

References and Notes


2 Ibid

3 See supra note 1

4 Ibid

5 Imports of machinery – an extremely important mode of technology transfer – represent a case in point, in which the additional element is the embodiment of the technology in hardware. Another example is direct foreign investment when used as a means to acquire technology with the additional elements typically being financial capital, management, and marketing

6 Krishnamurthy GVG, Legal Aspects of Technology Transfer: a Conspectus, Chartered Secretary, April 1991, 273

7 The basic legal document is the licence agreement for transfer of technology or know-how. It is a formal instrument that serves several purposes. From it flows the legal rights and obligations of the parties to the transaction. For a developing country, however, the licence agreement is not merely a document setting out the private interests and privately assumed risks of the parties to the contract but it is as well required to pass the test of public interest. Government regulatory practices may require the enterprise to negotiate rights and obligations so that not only width and depth of control are achieved in the agreement but also certain restraints and limitations are not accepted

8 The terms ‘technical assistance’ and ‘technical services’ are used strictly to cover only that component of technical information and services that has outside know-how and patents. The technical assistance agreement is required to conform to the contract laws of the client’s country and resembles contracts executed for the purchase of machinery, consulting services and the like. The supply of technical and financial cooperation for developing and least-developed countries is mentioned in article 67 of the TRIPS Agreement, but no specific obligations or operative mechanisms are provided for. The provision of the assistance is on request and subject to “mutually agreed terms and conditions”. Such cooperation shall include assistance in the preparation of laws and regulations on the protection of IPRs as well as on the prevention of their abuse, the establishment or reinforcement of domestic offices, including the training of personnel

9 In developed countries, the patent system plays a very important role in stimulating inventions of industrial utility in exchange for public disclosure of the full informational content of an invention, which gives the interested public the possibility of further improving it or seeking substitutes, the State through patent law, confers on the patent owner certain exclusive rights for a limited period. These concern principally rights of excluding others from making, using and selling the invented product, technique or process in the national territory where the patent has been issued. The State provides for the enforceability of the patentee’s rights. A patent may be issued in the home country without being invalidated in another country on the ground that the novelty of the patent has been previously disclosed

10 For developing countries, by far the most important means of acquiring technology is the know-how agreement. Transfers of know-how take place partly because patent licences have little relevance in developing countries and partly because only highly competitive and reputed companies who possess and use exclusive industrial information are sought as sources of technology. Know-how holds a position somewhere between technical assistance and patents. Very broadly, know-how agreement has four parts: (a) recitals and legal administrative provisions; (b) definitions, grants of rights and obligations of each party; (c) remuneration to the licensor and factors that condition it, and (d) services and matter
that may be adjunctive to know-how, such as trademark rights and patent rights

11. The engineering services agreement is a short-term contract; listing a technical work the supplier of engineering services is required to perform. The agreement becomes complex when ‘process know-how is supplied by one party, ‘engineering’ by another party and the recipient himself assumes responsibility for certain services.

12. Trademarks are distinctive visual and sometimes aural devices, words or emblems (symbols) or a combination of them that a firm applies to the goods it trades in or to the services it performs to indicate to the public that they are the firm’s goods or services. This agreement resembles any other transfer agreement and entitles one party to make use of the trademark of the other contracting party in respect of goods, machinery or equipment, etc., which are the subjects of the transaction.

13. ‘Franchising’ is a system of distributing goods or services that is often associated with high reputation trade or service marks in which the franchiser supports, trains and to some extent controls the franchise in selling the goods or in rendering the services. Franchising is a distribution system rather than a production system. It permits an agreed upon uniform method of marketing a product or performing a service. The franchise agreement is similar to the traditional trademark user agreement and places highest emphasis on the controlled use of the trademark and on statutory means of protecting its ownership. Generally, the standard legal and administrative provisions incorporated in the technology transfer agreements include preamble, recitation as to identification of parties, definitions, duration of the agreement, rights and duties of the licensor and licensee, entry into force, currency convertibility, taxes and governmental fees, non-waiver, third party infringement, most favoured clause, termination of rights, authority behind signatories, ratification and cancellation, *inter alia*. In other words, the statutory and non-statutory laws governing the transactions in the field of science and technology, as well the laws agreed by parties, are to be complied with in every licence or other agreement entered into by parties involving transfer of technology.

14. The technical information referred to may be varied in nature: an invention for which no patent has been taken out to avoid detection by competitors, technical knowledge essential for the proper exploitation of the patented invention, short-term technical knowledge which gives a lead over competitors but for which the costs of a patent application are too expensive, non-patentable inventions, technical experience, skill, detailed drawings, blue prints, plans, calculations, sometimes also technical assistance, etc.

15. Definition derived from Article 7 of the Commission Regulation 556 / 89 on know-how licensing agreements.


17. See Milgrim on Licensing, § 3.57 (2000).


21. Hereinafter referred to as the GERTT.

22. Article 2(1)7a of GERTT.

23. Ibid.


26. For example, trade marks or know-how.

27. For example, patents.


33. Article 2(1) 7b of GERTT.
Hansen v The Magnavox Electronics Company Ltd (1977) RPC 301 (English Court of Appeal).

See Brunsvold & O'Reilly, Drafting Patent Licence Agreements, § 11.00 (4th Ed. 1998)

For example, a 4% royalty is more favourable than a 6% royalty

For example, the scope of the licence, the royalty base, duration, geographic scope, right to improvements, etc.

For example, a subsequent transaction in which the licencsee pays a lower royalty rate, but is also giving the licensor a cross-licence under some of its own patents, may not really be ‘more favourable’


Windsurfing International Inc v AMF, Inc, 782 F.2d 995 (Fed. Cir.1986)


395 US 100 (1969)

Section 145 of the Australian Patents Act reads: “a contract relating to the lease of, or a licence to exploit, a patented invention may be terminated by either party, on giving three months’ notice in writing to the other party, at any time after the patent, or all the patents, by which the invention was protected at the time the contract was made, have ceased to be in force”

Bristol Repetition Ltd v Fomento Ltd (1960) RPC 163

Antitrust Guidelines for the Licensing of Intellectual Property

329 US 637 (1947)

Einhorn, Patent Licensing Transactions, § 7.03 (2000)

Also known as improvement clause

Einhorn, Patent Licensing Transactions, § 2.11 (2000)

Concluded after studying several technology transfer agreements under the EU position and governed by GERTT. This is the trend followed in the European Union