# Analysis of Laws of Technology Transfer

*A comparison of Mexico law with laws in developing and developed nations*

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From its enactment in 1973, the Law on Registration of Transfer of Technology and Use and Exploitation of Patents and Trademarks has represented important short-term benefits for Mexican companies and for the country's economy, particularly in regard to reduction of the payments for acquisition of technology and the improvement of contractual terms. However, since the law radically modified the conditions prevailing prior to its enactment, there is a concern of determining whether the law has negatively affected the flow of technology to domestic companies, inasmuch as there is a general consensus that our country requires foreign technology to continue its industrialization process.

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In order to have elements of judgment that might allow us to answer the foregoing question, we must analyze the legislative actions taken by other countries in this field, as well as of the world market that the potential seller of technology has before it.

The most remote precedent for the regulation of transfer of technology is the Japanese legislation enacted after the Second World War. According to that system, all agreements had to be approved by the Ministry of International Trade and Industry. The Japanese technological policy helped achieve the "Japanese miracle". It should be pointed out that the Japanese technological policy did not consist only in regulating the transfer of technology, but that the principal emphasis was to achieve its own technological capability. In fact, the regulation of transfer of technology was for Japan a transitory measure. Having achieved its own technological development, currently Japan has almost completely liberalized the transfer of technology.

As more direct precedents of our Law, we shall refer to Latin American legislation.

In 1962, Brazil enacted a law providing that all agreements on technology involving payments abroad should be registered with the Central Bank. A maximum limit of payment was established of 5 percent on the sales of the products manufactured with the technology; the term of enforcement of an agreement should not exceed five years; and no payments were allowable as royalties for the use of patents and trademarks by subsidiaries to parents or affiliates established abroad. The Law was complemented in 1970 with the law that created the National Institute of Industrial Property which had the power to approve or reject agreements on transfer of technology. Currently, the Central Bank requires the approval of the agreement by the Institute to grant registration, wherefore the Institute has ample powers on the subject. The Brazilian Code of Industrial Property does not specify the conditions that must be met to approve agreements on transfer of technology, wherefore the Institute has an important degree of discretionality.

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In 1970, the Cartagena Commission approved the Code for Common Treatment of Foreign Capital and on Trademarks, Patents, Licenses and Royalties. This code was adopted by national legislations of Bolivia, Chile, Colombia, Ecuador, Peru, and Venezuela. The code requires that all agreements on transfer of technology should be approved by the respective governmental authorities; that the agreements may not contain a series of provisions that can be generally defined as restrictive trade practices; that payments should be examined and approved taking into account the effective contribution of the imported technology by making an estimate of the probable profits, the price of the products made with the technology and other specific forms of evaluating the imported technology; and that in the case of agreements between parent and subsidiary corporations, no payment shall be authorized.



In 1971, Argentina enacted a Law on Licenses and Transfer of Technology. The Law followed the principles of the Cartagena Agreement, prohibiting a series of restrictive trade practices. A new concept introduced by the Law was that trademark license agreements would not be approved whenever they did not involve the transfer of technology. The Law empowers the Registry of Technology to establish maximum limits of payments for industrial sectors and, until such limits were established for specific sectors, a general limit of 5 percent on net sales was established. Supplementing the Law on Transfer of Technology, the Supreme Court has sustained that payments from subsidiary to parent corporations for royalties or technical fees are in fact distribution of profits, wherefore they are not deductible for tax purposes.

In September of 1974 Argentina enacted a new law on Transfer of Technology. Besides following the provisions of the Law of 1971, the new law granted almost unlimited

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powers to the Registry of Technology for approving or rejecting an agreement. For example, reference is made to paragraph (a) of Article 5 that provides "the approval of an agreement shall be denied whenever the technology to be acquired is contrary to the objectives of the national policies or plans on technology and development, or has negative implication in the patterns of market consumption or in the redistribution of the income, or if it is felt that the technology does not promote the technical, economic or social progress". Another example of the discretionality with which the Registry is invested is paragraph (d) of Article 5 that provides "an agreement shall not be approved whenever from the analysis of the explicit and implicit costs it is apparent that the price agreed to exceeds the benefits to be obtained from the technology". Another example is Article 8 that establishes, "The authority may deny the approval of agreements whenever, as a result of the general evaluation of the operation of the acquiring entity, it should be apparent that it is not convenient to approve the new agreement". This law contains concepts of particular interest. For example, once an agreement is terminated the recipient of the technology shall have the right to continue to use it. Also the agreements shall not be approved for the use of trademarks except when the trademarks are used exclusively for exportation, which shall not be used in the domestic market, and if the price is established as a percentage of the income obtained from the exportation of the goods. Additionally, the trademark license agreement executed prior to the date of the enactment of the law shall only be in effect until December 31, 1979, provided the licensee agrees to develop its own trademarks or the licensor agrees to authorize the use of the trademarks without compensation after such date. Finally, the law establishes that the agreements shall not have a term of enforcement of more than five years.



### Irreversible Tendency

The regulation of the transfer of technology is, in our opinion, an irreversible tendency of the developing countries. It is probable that other countries will follow such tendency. Governmental efforts have been made to establish as International Code of Conduct the principles established in the several local laws on the subject.

One area of regulation of the law on technology is that directed to supress restrictive trade practices. This type of regulation has not been enacted only in developing countries. It is included in legislation of developed countries, such as the anti-trust laws of the United States and of the European Economic Community.

Simplifying for practical purposes, it may be stated that, according to the laws of the United States any agreement that without justified reason affects the free internal trade of such country or the free trade between the United States and foreign countries is illegal. The following restrictive practices are illegal per se. The obligation of acquiring raw materials from specific sources; the prohibition to trade with competitive products; the obligation of acquiring package licenses; and restrictions on sales. In most cases, the following would also be illegal: price fixing, exclusive grant-backs, and volumes restrictions. If there are no justified reasons therefor, the following might also be illegal: limitations on the field of use, territorial restriction, and nonexclusive grant-backs.

According to the Treaty of Rome establishing the European Economic Community, agreements are prohibited whenever they affect trade between the member countries and have as purpose or result to prevent, restrict, or alter competition within the European Economic Community. Among others, the following are prohibited: territorial restrictions, limits on production, price fixing, obligation of acquiring raw materials from specific sources, exclusive grant-back provisions.

Taking into account world regulations on technology, the analysis of the Mexican Law allows us to arrive at the following conclusions:

(a) Inasmuch as this type of agreement is subject to governmental control in many countries of the world, including developed countries, we feel that the requirement of obtaining governmental approval in Mexico should not affect the flow of technology into our country.

b) The law provides that the agreements may not contain the following restrictive clauses: clauses authorizing the supplier of technology to intervene in the administration of the recipient; limits on technological development; obligation of acquiring raw materials from specific sources; unreasonable limitations to export; prohibition to use complementary technologies; obligation of selling exclusively to the supplier; obligation of using personnel designated by the supplier; limits to the volumes of production; price fixing; and the obligation of executing exclusive sales or distribution agreements with the supplier.

This type of restrictive clause is prohibited both in developed and developing countries, so we believe this aspect of the Mexican Law is totally justified.

c) The law provides that an agreement will not be approved: when the technology is freely available in the country; whenever excessive terms of enforcement are established, which in no event can exceed a maximum of 10 years obligatory for the recipient; grant-back provision; whenever controversies are submitted to foreign courts.

### Freely-Available Technology

Technology freely available in the country has been interpreted by the Registry to mean substantially the same technology referred to in a specific agreement and which may be obtained within the country without compensation. In very exceptional cases has an agreement been rejected because it was considered that the technology was freely available in the country.

Upon evaluating the term of enforcement of the agreements, the Registry has acted reasonably and in most cases has approved the maximum term of 10 years. It should be pointed out, however, that the term is intimately related to the question of the payments, to which reference shall be made hereinafter. In regard to grant-backs, the Technology Office feels that exclusive or nonexclusive grant-backs are in principle unacceptable. In certain specific cases, and provided certain conditions are met, the Technology Office has approved grant-back provisions. In connection with courts, the Registry has accepted an agreement to submit the controversies to arbitration and has accepted that the agreement remains silent in regard to competent courts, whereby the principles of International Law would be applicable. In the manner in which the Registry has enforced the above prohibitions, we believe that they are also justified.

d) The Law grants to the Registry the power to review the payments established in an agreement and to deny their registration whenever they are disproportionate with the technology or constitute an excessive and unjustified burden for the national economy. The Registry has ample discretional powers to determine in each case if the payments are adequate or not.

Recognizing that the officers of the Registry have made enormous efforts to attempt to arrive at equitable solutions, we believe that the system of governmental evaluation of the price may constitute a serious obstacle to the flow of technology into our country inasmuch as it is very difficult that a single person or a group of persons, however capable they might be, can possess the necessary knowledge in all technological fields to assign to each technology its equitable value.

**80 Percent Rejected**

Statistically, it is noted that approximately 80 percent of the agreements that have been submitted for registration have been rejected, a large majority because it was found that the price was not acceptable. The foregoing means that domestic companies are not skilled in negotiating technology agreements, that the system of evaluation of the agreements in their economic aspect has not been adequate, or that the goal is not to establish equitable prices, but prices below those that would be equitable. It is worthwhile mentioning that after the initial rejection of the agreements, most of them have been renegotiated and finally approved by the Registry. The acceptance of the reduction of payments by the supplier may be interpreted as a recognition that the initially agreed prices were high or as an acceptance by the supplier of a reduced payment, feeling that it is better to have something than nothing at all. This last possibility, of course, may seriously affect the technological markets available to domestic companies.

It would be desirable that upon carrying out the economic evaluation of the agreements the result of the negotiation by the parties be accepted, within certain reasonable limits.

In an effort to protect domestic industries, and possibly as a result of interchange of experiences with other countries, the Registry is following certain policies, in our opinion without a clear legal basis, which should also be studied. The principal ones are the following:

a) The Registry feels that upon termination of an agreement the recipient should be in a position to continue to use the technology, exception made of the industrial property rights of the supplier.

The foregoing policy departs from the criteria that the technology is "licensed". We believe this policy is reasonable, provided the agreements are approved for terms and with economic conditions that result compensatory for the supplier.

b) The Registry feels that upon termination of an agreement no secrecy obligation should continue in force. In exceptional cases, and where certain requirements are met, the Registry has been willing to accept secrecy obligations for a limited time after termination of an agreement. We believe this policy is also reasonable.

c) Paragraph II of Article 7 of the Law provides that an agreement will not be approved whenever the price is excessive or constitutes an unjustified excessive burden for the national economy. The Registry is following the policy of objecting provisions in agreements which are not particularly favorable to the recipient, alleging that such provisions are contrary to the above paragraph, even though they do not relate to the price. With this reasoning it has objected, for example, to provisions through which the supplier does not guarantee the results obtainable with the technology, that the technology shall not infringe industrial property rights of third parties and similar circumstances. Recognizing the intention of the Registry, we believe that such practice is inadequate inasmuch as taken to extremes it would mean that the Registry has the power to review each and all of the provisions of an agreement and of rejecting an agreement if it considers that a certain provision is particularly disfavorable to the recipient, giving way to a state of legal insecurity. We believe, again, that the result of the negotiations between the parties should be respected.

d) In an effort to rationalize payments abroad for technology, the Registry is rejecting any payment between subsidiary and parent corporations for the use of patents and trademarks, even though it is accepting payments for technology. Likewise, it is discouraging the use of trademarks owned by foreigners and promoting the development of local trademarks. Within reasonable limits, we believe the foregoing policy is acceptable.

In summary, we feel that the law may be positive for the country, provided that in its administration the interests of the suppliers of technology, of the recipients and of the country are recognized. If the rules of the free technological market are affected beyond reasonable limits, such market shall become inaccessible for Mexico.

Specifically, the economic conditions of the agreement should be evaluated as equitably as possible, the actions of the Registry should be taken within the legally established limits to avoid legal insecurity and the freedom of negotiation of the parties should be respected, inasmuch as the law should be understood as the legal frame within which such freedom may be exercised. Finally, it should be mentioned that the law cannot be considered as a final solution to the country's technological problems, and that it should be complemented with a national long term technological program.