

# New Ruling on Transfer in Spain

*Intervening administrations protect the interests of the weakest party, the licensee*

**BY FERNANDO POMBO\***

There is a general recognition of the importance which the transfer of technology has to the economy and people of the receiving country. It means an immediate access to knowledge of undoubted industrial importance, as well as a reduction in costs and the simplification of processes. Many of the receiving licensee countries, however, have foreseen the need for specific regulations which in some way control licensing. Spain now is among these countries.

State intervention in licensing has been criticized as being a negative action within a free-trade capitalist society. Nevertheless, the intervening administrations have maintained the need to support the weakest party, in this case the licensee. This is done to avoid any unfair advantage which could arise from the dominant position of the licensor possessor of the advanced technology which is the object of the contract. At the same time, administrations within the licensee receiving states must try to encourage the acquisition, through local research, of self-developed technology. One method of doing this has often been to make the acquisition of foreign technology difficult. This will work in those cases where the technology acquisition is essential and irreplaceable due to its inherent unique nature.

At the international level, the assumed need to control the international transfer of technology to underdeveloped countries has been considered not only by the receiving countries, but also by international institutions. Article 50 of the PCT; UNCTAD, during its meeting in New Delhi in 1968; and WIPO, among others, have discussed this subject.

## Latin Antecedents

On the national level, various Latin American countries were among the first to attempt a formal state control over the transfer of technology above and beyond that of Japan in the 1950's and 1960's.

With decision 24 of the Cartagena Agreement of December 1970, Chile, Colombia, Venezuela, Ecuador, Bolivia and Peru accepted the institution of state control over the transfer of technology, by requiring that all contracts be submitted for examination and study to the administration before receiving approval and authorization.

In accordance with the provisions of the said Andean

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Pact, the controlling body must assess the effective contribution and importance of the technology to be imported. At the same time, they must review clauses involving excessive limitations or conditions imposed by the licensor on the local licensee of the technology.

The Andean Pact is important not only for its geographical scope of application, but above all for the repercussions it has had on other national legislations prescribed afterward, for example, the Argentinian Law of September 10, 1971 and the Mexican Law of December 28, 1972.

The influence which the Andean provisions have had on these two just mentioned laws is so evident that in some instances they quote the text of the Pact literally.

It is also evident that the Andean provisions greatly influenced the new Spanish ruling on the transfer of technology to which we shall refer later.

## Spanish Antecedents

In December 1959, the Spanish government established a decree whereby restrictions on foreign capital investment were relaxed when these investments were made through the licensed introduction of technical assistance, patents and manufacturing know-how. Authorization and evaluation of these arrangements now are required from the appropriate Spanish Ministry.

Later, via the Decree of January 26, 1963, restrictions on certain industrial sectors were eased. Still later, the Decree of February 25, 1965 directly regulated "the protection of the national company". It laid down that Spanish companies must prove that their license agreements concerning technical assistance, or use of patents wherever there is foreign capital participation (or any other form of technical or financial cooperation) do not contain clauses which restrict freedom of export for their products or hinder access to new improved manufacturing processes or technology related to the industry of which they formed a part.

Agreements which perhaps contain restrictive clauses of this or any other kind required authorization, basically so that foreign currency could be made available to the licensee for payment to the licensor. A system for the control of such contracts was set up between the Ministry of Commerce and the Ministry of Industry and used until the establishment of the latest rulings of September and December 1973.

Various people have criticized the overall content of the previous ruling (as they do that of the present one) believing it violates the international agreements which Spain has made to obtain ratification and entrance into the OECD. For these critics, an administrative control of contracts, which justifies its existence as a control on ex-

change, must surely exceed the limits of legal control established by the international agreements in question. But this is not the time to enlarge upon the possible illegality of the Spanish ruling on the transfer of technology, in the light of its effective application by the Spanish administration.

### THE NEW SPANISH RULING

1. We come now to the Decree of September 21, 1973 and the Order of December 5 of the same year. These adapt, arrange and complete the confused former rulings on the transfer of technology. It is important that those licensing into and out of Spain understand them in depth. Article I of the new Decree concerns the object, indicating that the transfer of technology through licensing may exist in any of the following forms:

- a) Surrender of the right to the use of patents and other items under industrial ownership
- b) Know-how
- c) Engineering
- d) Consulting services
- e) Staff training services
- f) Documentation and information services
- g) Other forms of technical assistance

Thus, the new provisions cover the broadest scope possible by including every type of transferable technology including trade secrets.

Although the inclusion of trademarks within these provisions has been criticized, particularly when license of the trademark is effected without technical assistance or know-how, in practice these licenses are included in the ruling and must therefore be submitted to its method of control.

The new regulations establish two controls for the license agreements mentioned above. One (imposed by the Ministry of Industry on the contract as a whole) results in administrative authorization and registration in the new "Registry for Transfer of Technology Contracts".

A second control (imposed by the Ministry of Commerce), is simply a control on exchange. It authorizes payment in foreign currency arising from the execution of the license.

In practice, the second control has never been in opposition to the authorizations given under the first one. To the extent that a license is authorized by the Ministry of Industry, it almost automatically leads to authorization for payment to be made abroad.

#### Limited Requirement

2. Although the new Ruling does not specifically say so — and in fact attempts to establish the contrary — it should be understood that the only licenses which require registration, (even when their purpose causes them to fall within those specified in Article 1), are those involving the payment of money to the foreign licensor outside of Spanish territory.

Licenses not involving payment would be excluded, as would those in which the counter services of the applicant have not been contracted in foreign currency payable outside of Spain.

We shall return to this point later.

3. In order for those licenses requiring authorization

to be registered in the "Registry of Contracts for the Transfer of Technology", a specific procedure must be followed. This is detailed in the Order of December 5, 1973.

The request for registration must be put forward and carried through by the licensee applicant for the transfer of technology.

The licensor does not have legal access to the proceedings regarding this request, and therefore cannot always be sure that the obstacles set forth by the applicant as the Administration's grounds for rejection actually were officially given. In practice, however, it is possible for the licensor or his representative to contact the competent official to discuss the difficulties encountered with the license, and to speak to him about the positive aspects for the Spanish economy or of the agreement in question.

In practice, it is usual for the proceedings to be carried out by the applicant's Authorized Attorney, appointed in common agreement with the licensor.

Once the license agreement, together with copies and documents, has been submitted for approval, a request is made to the competent Ministerial department, under whose control the type of technology in question falls, to issue a report on the justification — or nonjustification, as the case may be — of the transfer.

On receipt of this report by the General Board of Technology, the license agreement will be examined for the existence of undesirable clauses.

In general, the Decree lays down that those license agreements will not be authorized which contain restrictive clauses which impede, impair or hinder the technological development of the licensee and limit the commercial independence of same or represent misuse on the part of the licensor of the technology.

The Order of December 5 further establishes as undesirable those clauses having as their object:

- a. To forbid, condition or limit the use of the licensee's own technology or the acquisition of same from other sources, and the utilization of unpatented knowledge once the contract has expired, as well as to condition, limit or cancel the efforts of research, innovation and technological development of the licensee.
- b. To compel the grant back of patents, improvements or innovations made or developed by the licensee from the acquisition of the technology object of the license.
- c. To establish the transfer of technology in the form of blocks (tie-ins) including unnecessary parts or components or for which there is proven domestic supply capacity of the equivalent quality and reliability, provided the said parts or components are technically separable from the whole service object of the license.
- d. To lay down the transmission of technology which is completely or partially inadequate due to obsolescence, insufficient competitive capacity, or other similar reasons, as well as to compel standardization or typification of quality which is not compatible with the standards laid down by Spanish legislation, except for cases in which production is intended mainly for markets where such standards and qualities are required.
- e. To forbid, overlimit within the geographical scope

or expressly to refuse authorization regarding certain export areas of goods produced by the licensee, as well as compelling the acquisition of raw materials or components and other intermediate goods or equipment from the licensor.

- f. To fix minimum activity levels or to limit the licensee's liberty to determine production levels, models, competitive articles, prices and periods or to establish the licensor's right to fix unilaterally the prices of the goods produced by the receiver.
- g. To make conditions in favor of the licensor's interests, regarding the sale on the domestic market of the goods produced by the licensee, and likewise to force the latter to accept an exclusive relationship with the licensor or to impose the use of trademarks registered by the licensor in Spain.
- h. To lay down the obligation on the licensee's part of supplying, on terms against the interests of the Spanish economy, the licensor or certain third parties with the goods produced with the assistance of the technology transferred.
- i. To establish the licensor's right, not acquired previously by other means, of intervening, controlling or making conditions regarding the licensee's company management, or his expansion or diversification strategy.
- j. To impose payments which are considerably higher than those normally made on the market in similar situations or minimum counterservices when payments are based on royalties in proportion to the level of activity in the different magnitudes.
- k. To establish payments in the way of royalties in proportion to the production level, without deducting the value of the products or components imported and made part of the production process to which the acquired technology is applied, or not to exclude the turnover corresponding to lines of products not affected by the acquired technology.
- l. To impose payments based on royalties on the licensee's activity level when the licensee is a subsidiary of the licensor with over 50 percent share in the former's capital stock, or when the licensor supplies raw materials or intermediate products used in the process amounting to over 30 percent of the overall cost of the product, or when the licensee is a consultant or engineering concern, unless in this latter case it concerns a cession of process technology in which this is continuous.
- m. To fix higher price (difference between the prices agreed upon in the license and those in practice in the international market by the supplier or his main competitors), regarding supplies, materials and equipment associated with the process of transfers of technology, coming from the licensor or certain suppliers in the contract.
- n. To impose the inadequate duration of the contract or of its direct consequences, either due to its brevity or its length, or to fix the automatic extension thereof, as well as to impose payments for a period greater than the time the patents implied are in force.
- o. Insofar as interpretation is concerned, to make the foreign language version of the contract prevail, in the case of this being signed in other languages apart

from Spanish.

In practice, the application of the last part of clause (g) above is attracting special interest, in that it prohibits the use of registered trademarks, it seeming logical that the entity transferring a specific technology which is linked to a specific product will try to identify that product which is manufactured with its technology with the trademark by which it is known throughout the world.

Unlike the Latin American laws, the Spanish ruling does not generally prohibit contracts between parent and subsidiary, but does specify that when participation in the subsidiary exceeds 50 percent, payments shall not be made based on percentages higher than the level of activity of the licensee subsidiary.

With regard to the duration of contracts, this is being studied by the competent officials, both from the point of view of rejecting clauses which establish too short a period for the contract (remembering that the licensee receiver of the information has to have time to recuperate his investment and later benefit from it) and also rejecting those which involve excessively long periods which are not required by the licensee receiver to assimilate the transferred technology.

A period longer than five years is being unfavorably considered in the majority of cases.

The fixing of a minimum level of activity on royalties is not being authorized; however, action is being taken concerning the establishment of the payment of an initial compensatory amount upon first delivery of documentation and material.

This initial amount may also be paid in several equal instalments.

With regard to geographical limitations, it is being understood by the competent officials that the geographical scope of the product or activity in question will be restricted (or not) in accordance with the type of product or activity.

In general, freedom of export to Latin American, Arab, and all European countries is being considered a sufficient reason for the contract not to be rejected.

Once the license agreements have been examined, the Administration has to decide on their approval and registration in the Register for Technology Contracts.

At present, three decisions are possible:

- a. Refusal of authorization and therefore no registration of the license. Administrative appeals may be made against this decision, but in practice this does not often happen, basically because the possibility of later appeals to the Supreme Court presupposes the lapse of a period of time which could be more than three years before a final decision is reached.
- b. Registration of licenses bearing unfavorable comment. This means that for certain reasons the Administration does not refuse authorization, perhaps because the contract has been previously authorized under the terms of the former ruling; but it does, however, show the existence of unfavorable aspects for the Spanish economy.

The full implications of these unfavorable comments are felt when later administrative authorizations are sought, together with certain benefits in industrial activity and from which benefits are excluded those Spanish entities with licenses bearing these comments.

- c. Authorization and registration of licenses where a way is left open for obtaining foreign currency and normal payment of the cost of the license to the licensor in his country of residence.

### Retroactivity

4. The final provision of the Decree lays down the obligation of registering, within one year, all licenses which have been authorized by the Administration under the terms of the former ruling.

Thus, the new ruling would appear to be retroactive, in that licenses previously authorized must be resubmitted for study, approval and registration.

The time limit of one year granted by the Decree expired in October 1974 and not all licenses previously authorized had been presented for new authorization by that date.

The stand taken by the General Board of Technology in this respect has been extremely flexible in that, firstly, even those previously authorized licenses submitted after October 1974 are considered for registration and, secondly, registration of licenses authorized under the previous ruling is approved practically automatically.

The only modification is that the new authorizations for registration have been granted for a very limited period, for example, the end of 1975 or 1976, it thus being implied by the Administration that before new extensions of time can be obtained, the license in question shall have to be adapted to the norms of the present Decree and Order.

### Effects of Nonregistration

5. Special importance is attached to the effectiveness of the new ruling on the validity of licenses for the transfer of technology in the case where these licenses are neither approved nor registered.

Article 5 of the Order of December 5 establishes that the effectiveness of any license for the transfer of technology is subject to administrative approval and registration in the "Register of Contracts for the Transfer of Technology".

This has been interpreted by some administrations as the fixing of an essential condition with regard to the validity of licenses. It is their understanding that once administrative authority has been denied, the license must be cancelled and negotiations between the parties terminated.

However, contrary to this opinion, it has been put forward, by Lucas, among others, that the refusal of administrative authorization only has an effect with regard to payment to the foreigner in foreign currency and in his country of residence. The remaining obligations undertaken between the parties shall remain perfectly valid and their fulfillment obligatory, even though those concerning payment in foreign currency shall not be effective and must be substituted by other clauses which establish payment in pesetas, within Spain, and not transferable abroad (blocked pesetas).

### Other Aspects

6. Other aspects of interest concerning the ruling arise with respect to the period for procedure, control of payment for the licenses previously authorized and not yet registered and relations with the Ministry of Commerce.

The enormous accumulation of work produced by the new ruling has initially provoked a delay in the settling of proceedings, basically in connection with those licenses

which do not have authorization under the terms of the previous ruling.

The shortest time known for approval is 35 days. On average, authorization is taking to up three months, but in some cases licenses submitted for authorization at the beginning of 1974 have still not been approved in early 1975.

With respect to payments arising from licenses approved under the previous ruling and which have not yet been registered in accordance with the new provisions, until the present, the Spanish applicants have been authorized to make such payments, but it has now been announced that, shortly, further payments will not be authorized for those former licenses which as yet have not obtained new registration.

Finally, the dual control exercised by the Ministry of Industry and the Ministry of Commerce would suggest the desirability for unification when dealing with those licenses for the transfer of technology, endowing one single authorization with full effectiveness and, because of this, preparatory studies are being made with regard to a modification in the present provisions.

### SOME PECULIARITIES ASSOCIATED WITH CONTRACTS WITH SPANISH APPLICANTS FOR TRANSFER OF TECHNOLOGY

1. Due to the lack of knowledge of the legislation prevailing in the applicant's country and often because of mistrust of the procedure which the Courts of said country might follow with respect to claims brought against the applicant, foreign licensors frequently make use of clauses establishing the competence of Courts in their own country.

In the case of license agreements with Spanish licensees, the use of such clauses supposes a positive declaration of inefficacy for any claim which may be brought against the licensee.

Verdicts of foreign courts are recognizably effective in Spain with the application of three alternative criteria regarding the licensor.

Firstly, the existence of international agreements to which Spain is bound. Spain only has this type of agreement with Italy, Peru, Switzerland, Colombia, Czechoslovakia and France, and therefore this criterion is not applicable to the verdicts of other countries.

Secondly, the existence of reciprocal acceptance of Spanish verdicts by the country which has dictated the verdict it wishes to be carried out in Spain.

This criterion has been effective on several occasions, but in general has proven insufficient, in that the Spanish Supreme Court has carried to the extreme the concept of reciprocity, requiring on one occasion proof that authorization was given for the execution of a Spanish verdict concerning the same subject in the corresponding country.

Finally, by default of the above, the criteria known as internal control is applied. By virtue of this, the foreign verdict is performable in Spain if it has been taken as a result of the execution of a personal lawsuit, if the Spanish defendant has taken part in the proceedings and has not, therefore, been declared in default, if the obligation for which fulfillment is required is lawful in Spain and if sufficient documentation is put forward proving the reality of the verdict.

For the most part, this third criteria would prove effective for claims related to licenses but for the fact that in the majority of these cases, the defendant usually chooses

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licensee over front-end cash payment. He is getting credit toward the price of the license by doing R&D work that is needed with the cost being handled as an expense.

The approach is advantageous to BDC because the development is where it should be — in the hands of the ultimate producer, and we have a mechanism to be certain that proper development is being accomplished.

### Diligence Requirements

In cases of relatively large developments, we frequently include as diligence requirements, certain amounts of development work. This development work can be done each year until the item is commercialized. This work can be done within the company itself or at a Battelle contract research laboratory. BDC retains the right to review all technical results and audit the expenditures. In certain specialized cases, we have approached this developmental problem by a group type of approach. In cases where we can license an item to a number of different territories throughout the world, we can, as a part of the initial fee, require that these licensees make a research contribution of equal shares each year for a number of years. We then pool this contribution and do development work that has had a review by all of the licensees. By this method, all licensees benefit from a relatively minor contribution, and BDC can remain involved in the basic development for a maximum period of time.

The difficulties with this approach are, of course, the licenses must of necessity be issued at about the same point in time so that the complete funding for the joint research program is available at the same time. It also has the problems in the normal group-type program where the participants in the group feel that they should suggest the program to be followed. When most participants suggest different programs, we have certain problems. Nevertheless, it is a mechanism that has been rather successful in bringing industrial concerns or licensees into the development at a very early stage.

### Problems

The problems when a licensor such as BDC remains involved even on the periphery in the development work that is being done by a licensee are numerous. In the first place, if the licensee is contracting for the work to be done at a laboratory of Battelle, BDC often finds itself in the middle. In those cases, we are neither fish nor fowl. We have a limited say in what should be done, but we have really no mechanism to make sure that it is being done since the research contract is between the licensee and the contract research laboratory.

Another form of cooperative research which we have done occasionally is actually sharing of research costs by BDC and the licensee. In this case, of course, the license takes a different form in that the amounts that the licensee will spend are spelled out. This can be either in cash or the research can be done in kind. In these cases, the development plan is discussed and agreed between BDC and the licensee. Tasks are divided and BDC sponsors certain of the tasks in Battelle's own laboratories while the licensee performs tasks assigned to him in his laboratories or in his plant.

This sometimes is an effective mechanism; however, it

works best when the research and development to be done is relatively minor. For example, if test results are needed on a small prototype motor, the licensee can produce the motor and run certain basic tests while Battelle can run some of the more complicated tests and do other specialized development assignments.

It is our belief that, if possible, it is best the licensee assume the total fiscal responsibility for the development work. The reasons for this are obvious in that the licensee is motivated to get the best development work done since, by the terms of the license, he has to commercialize the product in a finite time. The licensee tends to be more serious about this commitment if he has made the total R&D commitment for the development.

Please do not infer from my discussion that we use the research-sharing approach in one form or another in all of our licensing endeavors — we don't. We do feel that it is one way to encourage the companies who can develop know-how to pick up an idea at a very early stage and commercialize it in an efficient fashion. I think, during the last two years in which we have been approaching things in this manner, the results have been good. In those cases where ideas have not reached successful commercialization, the cooperative development approach has helped establish the fact much sooner than if BDC had attempted to carry out the development by itself.

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not to appear before the judicial lawsuit, thus automatically prohibiting the execution of the verdict in Spain.

Therefore, contrary to what the licensor first thought desirable for his own account, it would be more advisable for this type of license to establish the competence of the Spanish Tribunals within the applicant's country.

Something of this kind occurs with clauses of arbitration, by virtue of which the licensor more often than not establishes the intervention of highly prestigious international institutions, such as the Court of Arbitration of the Chamber of International Commerce or the American Arbitration Association.

Spain is a member of the Geneva Convention of 1927. This Convention enables the State in which the arbitral decision is to be carried out to control its legality in accordance with internal law. In practice, the Spanish Supreme Court's "exequatur" has not accepted arbitral findings dictated abroad as in many cases these findings have contravened the Spanish law of December 22, 1953 concerning private arbitration.

Tremendous efforts are being made to see that Spain adheres to the New York and Geneva Conventions of 1961. Until this happens, it is advisable to accept submission to arbitration in accordance with the internal Spanish ruling. Apart from the fact that this arbitration is in practice effective and legally correct, the use of foreign arbitration could produce the total inefficacy of the decision dictated, as in the case with verdicts.