

Ideal Climate For Technology Transfer

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A discussion of the factors that create favorable conditions in nations for transferring intellectual property.

I have spent most of my professional career with large corporations in the United States, including Western Electric, Litton Industries, and for the last 16 years, U.S. Steel. In those years, I feel I have gained some insight into the climate in which technology transfer flourishes. My paper is about those fundamental conditions and attitudes that need to be in place before technology transfer can flourish.

Before getting into that, let me step back for a moment. After more than 40 years of Communist Rule, I appreciate that there are various basic necessities that may not be in adequate supply at the present time. These necessities might include electric transportation, communications and the like. Enhancing the immediate supply of these basic needs, however, is not my subject. Others are already are working on those problems.

Most of us here today are involved in intellectual property and technology transfer. By my adding you to look ahead to the day when your country will be entering the European Community and when your manufacturing and agricultural capabilities will need to be on a par with Western standards, I think most of you will readily agree that this will require a massive long-term infusion of technology from the West. If you try to do it all yourselves, you may never catch up.

I'm not an expert on your country and I don't pretend to know your specific needs. Therefore, rather than try to make specific suggestions on the steps that Hungary and Czechoslovakia should take,

my comments will describe what I consider to be the ideal climate for technology transfer. It will be a generic description. Only you people, your government and your country can decide what specific steps need to be taken in order to reach your goals.

First, most technology in North America is owned by corporations, not by a government. The businessmen that manage those corporations like certainty and predictability. They don't like surprises. They don't want to have to go back to their board of Directors and say that the project did not work out as planned. Everyone has a home, ultimately the shareholders, in a publicly-owned corporation.

• Contract •

The corporate executive who is the decision-maker needs to find a certain comfort level. You are likely to have that word, *comfort*, quite often if you are involved in negotiating a deal. *Comfort* is a warm and secure feeling that things all of your feelings about the total transaction, the people you're dealing with, the local political climate, as well as the specific terms and conditions of the transaction. North Americans aren't the only ones that need to find their comfort level. Everyone in the corporate world who ultimately reports to someone needs to have a high level of confidence that the project will be successful. The more a country can install the safeguards and create that atmosphere that things will work out as planned, the more likely the deal will occur in the first place.

One of those safeguards to increase the success of a project involving a technology transfer is a sound intellectual property protection system. The entrepreneur not only

patents but also trademarks, trade secrets and copyrights. The country that offers patent protection on a broad range of inventions, including pharmaceuticals, metallurgical and chemical compositions, computer chips, and the like, will facilitate licensing of those types of products into the country. Aside from those more conventional subjects, a sound and efficiently operating Patent Office is very important. The fees should be reasonable, the examination process should be carried out in an expeditious manner, and the foreign corporation should have confidence that it will be able to obtain protection in your country similar to that it is obtaining in other countries.

Software and its protection is a burgeoning field. Some of the most important intellectual property of Western companies is now embodied in the form of software. This might include algorithms to optimize the operation of the process. It might include databases on the design of component parts, of customers and suppliers, of production costs, and a multitude of other crucial items. The businessman needs to feel that his software will be adequately protected if it is going to be transferred to a foreign country. In the United States, we currently afford varying degrees of protection for computer software by patents, copyrights and by trade secrets. Some very knowledgeable people even argue that we over-protect software in the U.S.

The trademarks and servicemarks of the company need to be protected. The businessman needs to

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know that if he permits his licensee to use his valuable marks in connection with the technology transfer, that they will be properly safeguarded. If the deal does not work out, the rights to the trademarks will probably revert to the licensee.

• Trade Secrets •

The same is true of trade secrets. The businessman wants protection against departing employees who might have ideas about starting competing businesses. The businessman certainly will want to know that if the trade secrets are actually stolen that they can be recovered and that the thief will be prosecuted. Lastly, the businessman would like any trade secrets to be returned if the transaction is prematurely terminated. Many of the leading countries of the world are only recently recognizing the significance of trade secrets and many still lack adequate protection against the various ways in which trade secrets can be lost.

Assuming that a comprehensive set of laws is in place to protect intellectual property, the next question will be, is there a judicial system that will protect that property against improper use? Can you go to the court and stop the patent infringer? Can you get an injunction against the party that steals your trade secrets? Can you prevent the unauthorized duplication of your valuable software? Can you stop the teacher who is placing your trademark on his products without your consent? Is there a judicial system that has an established record? My impression is that since World War II the Eastern Bloc has not had a great deal of litigation, and therefore there is very little in the way of an established record that businessmen can look at. Obviously, a record cannot be created overnight. It takes years. This is not to say that litigation itself is good, but conflicts will undoubtedly arise, and they will need to be decided.

Is there an impartial judiciary in place that is free from political control? In the United States, our federal judges are appointed for life terms. They cannot be removed if the politicians do not like the deci-

sions they reach. They are essentially free from political pressure. One might argue that an impartial judiciary is not important, because the foreign corporations and the local partners are likely to stipulate in advance that disputes be settled by arbitration in a neutral third country. This is only partially true. In my opinion, the stability of the underlying intellectual property rights, for example, the patents, can only be decided in the country that issued the patents. The same may be true of any copyrights and trademarks that are involved. Thus, while arbitration may be useful in resolving contract disputes, the underlying intellectual property rights may only be adjudicated in the country of origin. Therefore, technology transfer situations may be somewhat unique in their reliance upon a local impartial, reliable judiciary. The businessman will gain a great deal of comfort if his attorney is able to tell him that such a judicial system exists in the country where they are proposing to send their technology.

Next, there should be an attitude recognizing the "hardy of contract" in other words, the parties to the technology transfer should be able to make their agreement in the form of a definitive contract and that contract should be respected by everyone involved, including the judiciary. In past years, I think many Western businessmen have questioned whether they could ever enforce the terms of their contract in an Eastern Bloc country in case of a dispute.

Although arbitration is a neutral third country has been provided for, ultimately that arbitration award may have to be enforced by a local court. Even in the United States, we sometimes question whether the courts are actually trying to determine the intent of the contracting parties, or instead trying to determine what the judge considers to be a just solution. The businessman needs to feel that his contract will be honored. There will not be some last higher priority imposed by the local government which is contrary to the terms of the contract. Again, this is a matter where confidence is not critical overnight. But the

assure that confidence building process begins, the better.

• Government Regulation •

Now, a few words about government regulation of technology transfer. In my experience, technology transfer has flourished where the local government has imposed only minimal regulations and has not erected artificial licensing restrictions. The countries that first over-regulated technology transfer have not experienced the expected results. Normally, the countries that have over regulated and so with the paternalistic motive of protecting the local economy. However, the results are often just the opposite. I ask you to think about what has happened in India, Brazil and other South American countries.

The usual pattern has been to place an artificial limit on the royalty rate that can be charged and on the terms or the length of the agreement. The same countries have also tried to forbid territorial restrictions that might be imposed on a local licensee. Another practice has been to forbid the payment of any royalties by the licensee to the licensor if the licensor owned an interest in the licensee. Lastly, of course, the government in these countries has insisted on approving the detailed terms and conditions of all such license agreements.

In Brazil and India, for example, this has resulted in long delays. Months and often years are lost — time when the new technology could be in use instead of merely having a pending agreement in a government agency.

In many cases, valuable technologies simply cannot be licensed to these countries because of the restrictions. For example, the technology may already be licensed in Western Europe where an 8% royalty rate has been established. There may also be a territorial pattern established. At least in the past, when you tried to license this technology in Brazil, you could be told that 8% was not permitted and that there could be no territorial restrictions on exports from Brazil. There were the licensing program. The result was that many useful

and needed technologies never found their way to these countries.

Things are now changing for the better in these countries. Mexico is liberalizing its regulations. Brazil is also in the process of eliminating some of its restrictive practices. The artificial barriers are coming down and things are happening faster than they did before. Technology is also flowing to these countries that could not go there before.

In the past 20 years, the world has become a better place to license technology, especially for the licensee. For example, the BBC has placed on its "blacklist" most of the worst practices that originally concerned the South American countries. Japan has also made it difficult for the licensee to sueback. The norms have changed, and the abuses are fewer. Also, the fruits of the world are learning that the medicine they implemented was worse than the sickness. The message is that countries should not over-regulate or impose artificial limitations on technology transfer. I believe licensees of technology will flock to your country if they are permitted to license according to worldwide standards and the standards of the marketplace.

Technology transfers are often two-way streets. Originally, the owner of the technology provides the details of construction and operation and the intellectual property rights to make a new product or run a core process. But very often

the licensee becomes quite adept and makes improvements itself. Experienced licensees have learned to view these improvements as one of the major benefits of the transaction. I have negotiated long and hard with Japanese companies to be sure that there is a broad and comprehensive grant-back of improvements to my company. We know they will make the process run better and make the product to more exacting standards (new production has begun). The licensee might even grant a concessionary equity stake if a better grant-back clause is included. Thus, those countries with computer engineers and skilled work forces are more likely to attract the attention of owners of technology for two reasons. First, there is a greater chance the technology will be successfully implemented. Second, there is a greater likelihood also that the technology will be improved and that those improvements will flow back to the licensor.

Last, let me point out that technology is fragile and easily lost. Owners of technology are aware of this fact. That's why it is so important for governments to create an atmosphere of respect for ownership of intellectual property rights. Since they are not tangible, like a piece of equipment or a piece of land, some people might place less value on them. However, the companies that have spent millions of dollars developing these intellectual property rights think of them as the

"crown jewels." The owners of the technology need to have that confidence reinforced that their rights will be respected.

Licensing offers is just the beginning of a strategic alliance between two entities that can later lead to joint ventures and direct investments. The two partners get to know each other, and they gain confidence and trust in one another. They learn about the other as well as the technical and marketing capabilities of the other. If they like what they see, the next project may be a joint manufacturing operation involving a direct investment of Western capital into the host country.

I've tried to describe what I consider to be the ideal climate for technology transfer. There is a reliable and predictable government. There is sound protection for intellectual property rights. There is an honest and impartial judiciary to settle disputes. There is respect for the rule of law and the sanctity of contract. There are laws, if any, regulations imposed by the government on the terms and conditions of the license agreement. And finally, a skilled work force exists that will lead to a successful venture resulting in an even better product or process based on the licensee's improvements. If these characteristics are found in the Hungary and Czechoslovakia of the future, then I think the owners of technology will be very anxious to find partners in your country.