Latin Software Licensing

Protection of computer software poses special problem for Latin nations that control technology transfer

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Securing adequate legal protection for computer software has been a preoccupation of the information industry in the developed world for over 20 years. This preoccupation naturally extends to agreements involving software use made with public or private-sector entities in developing countries. And developing nations are anxious to participate as fully as their resources will permit in the international information systems industry.

Latin American countries are no exception to this trend, but in those countries[1] which attempt to control the terms on which technology is transferred from abroad, computer software license or use agreements pose an additional problem. How should such agreements be regarded in the context of technology transfer regulations in order that the receiving countries obtain the benefits of information systems flows while maintaining the objective of their technology transfer control laws—to optimize the terms on which desirable foreign technology is transferred?

WHAT LEGAL STATUS FOR SOFTWARE?

A preliminary problem in this area has been that of categorizing software from a legal point of view. This question is far from academic since in Brazil, Mexico and the Andean Pact countries the norms which apply to the control of industrial property licenses are not identical with those applicable to transfers of non-patented technology. As a general rule, it is more advantageous for the foreign supplier of technology to license use of a patent than to transfer non-patented know-how. The patent license will be approvable for the term of the patent, whereas know-how transfers will generally be approved for a once-only period, usually quite short. Since the Latin American authorities regard know-how transfers as essentially equivalent to a sale, they are much less willing to approve restraints on the use that the transferee may make of such transferred know-how than in the case of licenses of industrial property when the licensee is being accorded a temporary right of use. This is particularly important in the case of software. As a matter of law or practice the authorities will generally not accept any limitations on the use or divulgation of the transferred technology after the approved transfer period. The theory is that once transferred and paid for, the non-patented technology belongs to the transferee[2].

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Since confusion appears to reign both in the United States and in Western Europe on the patentability of software and its status as an object of intellectual property rights,[3] it is hardly surprising that these issues have not been resolved in Latin America. The reluctance of the U.S. Supreme Court to explicitly uphold the patentibility of software[4] when combined with the French law of 1968 and the provisions of the European Patent Convention[5] specifically excluding such patentibility would constitute important factors militating against the patentibility of software in Latin America. The obscurity of the U.S. copyright law of 1976[6] dealing with protection of intellectual property rights in software is unlikely to make Latin American authorities particularly eager to recognize such rights in the near future. Thus, for example, the Colombian intellectual property office had until recently refused to recognize the possibility that software be protected by copyright, declaring that software was not covered by the recently enacted Copyright Law of 1982.

Software would, however, be considered to be "technology" as that term is understood in Decision 84 of the Andrean Pact[7] or Normative Act 15 of Brazil's INPI.[8] So, international agreements involving the use of software would appear to be within the jurisdiction of the authorities who regulate international transfers of technology. Colombia's Royalties Committee, for example, take the view that software-use agreements are within its jurisdiction in virtue of national law and Andean Pact norms governing technology transfer and a similar view is taken by S.I.E.X. in Venezuela.

EVALUATION BY NATIONAL AUTHORITIES

In these circumstances the national authorities are faced with the choice of trying to fit evaluation and approval of software-use agreements into the existing framework of laws and regulations governing international technology transfers or of adopting specific provisions applicable to the information systems sector. So far, the Andean Pact countries have adopted the first approach. Mexico and Brazil have chosen the second.

The first approach has the advantage that no new legislative measures are required for the national authorities to undertake their task of evaluating software-use agreements. Against this must be set a number of serious disadvantages.

First, the existing laws and regulations in Latin America on technology transfer were designed in the late 1960s and early 1970s. Such transfers then were conceived to be essentially long-term agreements between a foreign transferor in a monopoly or near monopoly position and a single or a small number of national transferees. The agreements were for the transfer of methods, skills, or processes in connection with specific industrial or commerical uses of the transferee. The relationship between the parties to which such transfer would give rise would be conceived of as being close and in principle long-term.

While each of these characteristics can be applied to firmware and to some forms of software transfer, such as custom-designed, complex programs for a large user, a large part of the software-use market concerns what is in effect the sale of a product in the form of multiple-application "packages." The transferor, far from seeking a single transferee, is anxious to have as many users as possible and would see its relationship with such users in much the same way as would the seller of a complex product with its buyers. The transferee is generally not in the position of dealing from weakness with a single possible supplier of the desired technology but is rather in the position of a buyer of complex goods in a market which has become increasingly competitive. While parent-subsidiary transfers are of considerable importance in "traditional" technology, it is only rarely that the provider and user of software "packages" will be in such a relationship.

In this circumstance it is far from evident that national authorities will be required to intervene to the same extent as in "traditional" sectors in order to uphold the wide range of prohibitions on restrictive clauses contained in technology transfer legislation. Increasing competition among suppliers of software would tend to weaken the leverage of any single supplier with respect to users. On the other hand, particular characteristics of the software market might require attention by national authorities to factors they would not be required to examine in connection with "traditional" technology transfer.

LESS TIME AND EFFORT

A further disadvantage to using existing technology transfer norms is the time and effort required to meet them. In countries such as Venezuela, Peru and Mexico the national authorities work to evaluate and decide upon agreements submitted to them within specific time limits established by legislation.[9] Even assuming that the authorities rigourously observe the legislative time limits (which is not always the case), evaluation requires considerable effort in paperwork by the applicants and, in many cases, by their lawyers. This paperwork must be done separately for each contract submitted and for any substantial change to a contract already approved. In countries such as Brazil and Colombia, where the national authorities are not obliged to work according to a legislatively imposed timetable, the risk of considerable delay in obtaining a decision with respect to a particular contract is thereby increased. These delays are compounded when any changes to the original contract must be submitted for evaluation and approval.

One solution could be a system of evaluation and approval by national authorities of a "standard-form" software-use contract submitted by a supplier. Various international agencies, most notably UNIDO,[10] have been working on the elaboration of standard provisions for inclusion in software-use agreements. The Royalties Committee in Colombia has indicated its willingness to examine standard-form contracts as a means of facilitating and speeding up approval of particular contracts subsequently submitted on the basis of already approved standard forms. The Regulation of November 16, 1982,[11] adopted by the Mexican authorities by virtue of the 1981 Technology Transfer Law, adopts this "standard-form" approach with respect to multiple purchases or rentals of a basic program when the essential elements of the program remain unchanged.[12]

Appropriate Comment

In this context, the remarks of Jaime Alvarez Soberanis concerning the 1981 Mexican Technology Transfer Law are particularly appropriate[13]. Section 2 (m) of that law declares that "computer programs" are within the categories of activities for which contracts between a foreign supplier and a national user require approval and registration. Alvarez points out that many categories of accounting and other standard programs cannot be said to be technologically important in themselves and should not require approval by the technology transfer authorities. He proposes that a regulation be adopted specifying which kinds of software contracts should be submitted. This avoids what he considers to be the ridiculous situation in which *all* such agreements would be submitted to the patrimony secretariat for approval.

The Regulation of November 16, 1982, provides that programs for small systems (less than 8 bits and with a central memory capacity of less than 48 kilobytes)[14] are not subject to registration. Neither are contracts involving "recreational" software or software incorporated as an integral part of electronic products or systems, such as domestic electrical equipment or machinery whose purpose is not that of processing information[15] or that of controlling the production process of goods or services.[16]

In those Latin American countries such as Mexico, where technology transfer policy is not linked directly to exchange control measures, the effect of such exemption regulations would be to leave national enterprises completely free to import the exempted software from abroad, or at least as far as import regulations permit. Where technology transfer and exchange control are linked, exemption regulations would transfer the entire burden of approving exempted international software-use agreements to the exchange control and foreign trade authorities. In this context software could be dealt with essentially as a product. There may be a case for giving "exempted" categories of software a specific tariff position as a product.

THE MEXICAN REGULATION

As already mentioned, the 1981 Mexican law on technology transfers specifically provides that contracts involving computer programs come within its ambit. This general statement has been refined by the regulation of November 16, 1982, which provides in some detail the sorts of program that are covered by the law. As already noted, it exempts certain specific categories of program while accepting the "standard-form" approach in other cases.

The regulation provides for approval and registration by the Patrimony and Industrial Development Secretariat (the "Authority") of the following types of large programs (i.e. designed for systems of more than 8 bits and with a central memory capacity of more than 48 kilobytes):[17]

1. "Operative systems," being software which permits a computer to communicate with its terminals and with exterior sources.

2. Process monitor programs, defined as being the group of programs that enable the computer to process information electronically.

3. Database administration programs.

4. "Language" programs such as assembly, interpretative, compilation and linkage programs.

5. Support packages for the user which enable it to develop specific applications of a common system.

6. Direct application packages for administration such as those for accounts, payroll, credit portfolio.

7. Direct application packages for technology, i.e. programs whose application is directly linked to a specific process for the production of goods and services.[18]

This list covers nearly all possible computer software and its integral application would have led to the problems already discussed. This is especially so since the regulation covers any contract concerning the software listed above and involving suppliers of hardware, software manufacturers and distributors or any software user.[19] The Mexican authorities have reduced their own workload and the burdens on the parties to software-use agreements by exempting certain categories of software from application of the regulation and by facilitating the approval process of other types of software through the "standard-form" method.

Exempted Categories

As already mentioned, the exempted categories are explicitly described as recreational software and systems forming an integral part of equipment whose principal purpose is neither the processing of information[20] nor control of the production process for goods or services.[21] By implication programs for small systems (less than 8 bits; central memory capacity of less than 48 kilobytes) are also excluded.

The standard-form procedure applies to multiple sales or rentals of a particular program without any change in the essential aspects of the original program. In such cases only the original contract need be submitted to the authorities for approval and registration.[22] Where parties to a contract wish to avail themselves of the standard-form procedure they must not only meet the documentary requirements for all contracts as set out in the regulation but must also present the following information:

1. Classification of the program according to the types specified in the regulation and mentioned above, specifying whether the contract involves initial purchase, updating, maintenance or rental.

2. Program number and version.

3. Date on which the program was first issued in its country of origin.

4. Price.

5. Company or office which developed the program.

6. Names and basic information concerning users.

7. Indication of equipment in which the program is to be used and the period of rental where the contract is a rental agreement.

8. Description of the program's functions.

9. Indication of direct technical support offered in connection with the program.[23]

Where a standard-form contract is approved an annual report must be presented to the authority containing updated information in connection with items 1, 2, 4, 5, 6, 7 and 9. Failure to do so will invalidate agreements which ought to have been covered by the annual report. It also exposes the parties to such agreements to the fines provided for in the 1981 Technology Transfer Law.[24] In all cases involving contracts related to process monitor programs, direct application packages for administration and direct application packages for technology the parties must provide the authority with the date when the program or package was introduced in the systems as well as details of the technical support services offered to the user or purchaser.[25]

Since the scope of the regulation is very broad and the exempted and standard-form categories are defined in somewhat general terms, there will often be doubt as to whether a particular program must be approved and registered. In such cases upon application the authority will decide after consulting such groups as it deems appropriate.[26]

THE BRAZILIAN APPROACH

In 1979 Brazil decided to integrate its public policy toward virtually all aspects of information systems with the creation of a "Special Information Systems Secretariat" (Secretaria Especial de Informatica) as a dependency of the National Security Council.[27] The secretariat's principal task is to coordinate the formulation and execution of the National Policy on Information Systems (Politica Nacional de Informatica—PNI). The decree which created the secretariat also provided for the creation of an Information Systems Commission (Comissao de Informatica) chaired by the head of the secretariat and composed of representatives of nearly all government departments as well as the Armed Forces and up to four representatives of the private sector. The purpose of the commission is to be a kind of consultative body to the secretariat.

The secretariat has been given an enormous range of responsibilities in nearly all aspects of information systems including conditions under which information systems equipment is imported.[28]

Two of these responsibilities are of particular importance in the present context namely:

1. "To give its technical opinion regarding registration of technology transfer contracts in the information systems sector. The enterprises concerned shall meet all requirements formulated by that body and shall provide all information requested, without prejudice to the legal jurisdiction of INPI."[29]

2. "Rule on contracts for the provision from abroad of data processing and transmission services, for the purposes of payments and currency remittances."[30]

It will be recalled that with the adoption of the Industrial Property Code in 1971,[31] INPI (the National Industrial Property Institute) was given jurisdiction to register not only industrial property license agreements but also technology transfer arrangements. In its well-known Normative Act 15 of 1975 INPI divided the contracts under its jurisdiction into five categories, namely patent licenses, trademark licenses, contracts for the provision of industrial technology, technical-industrial cooperation agreements, and contracts for provision of specialized technical services. Normative Act 15 details terms which must be included in each category of contract and terms which must be excluded. The contents of this normative act have often been analyzed in these pages and require no further comment here.

What is worthy of comment is the attempt by the Brazilian authorities to provide a special mechanism for the evaluation and approval of technology transfers in the information systems area while retaining as much as possible of the legal structure designed to deal with all forms of technology transfer agreements. With respect to the specific area of importation of data transmission and processing services the mandate of SEI appears to be independent of INPI. With respect to technology transfer arrangements the intention of the Brazilian legislation is that SEI and INPI will work together on the elaboration of criteria for evaluation of contracts and in decision-making on particular applications for approval of contracts.

Act Adopted

To this end, a joint normative act was adopted by INPI and SEI in 1981[32] creating a joint commission (Comissao Paritaria) staffed by members of both bodies. The act is also significant because it specifically includes software imports as being within the category of technology transfers. As a result, all international software-use agreements must be submitted to INPI in two sets of documents. INPI then sends one copy of the application with supporting documentation to SEI and, after officials from both bodies have studied the application, it is considered by the joint commission. Approval of the contract by INPI must specifically refer to the favorable opinion of SEI which is tantamount to giving that body a veto over approval decisions.

It is to be expected that INPI will attempt to apply the criteria of Normative Act 15 to technology transfers in the information systems area. SEI has already produced a normative act.[33] Its effect is to give preference to national over foreign suppliers of software. Where a contract is to be signed involving the provision of automatic processing systems to a public sector entity the principal contracting party must be Brazilian. A Brazilian enterprise for the purposes of Normative Act 14 is one whose principal place of business is in Brazil, which is directly or indirectly controlled by natural persons resident in Brazil, and where more than half the technical staff working in its principal activity is Brazilian. Even where the systems have to be imported, the hardware to be used must be contracted for separately, with national preference conditions again being applied.

The Brazilian experience, unique in Latin America, of providing a special mechanism for evaluation of technology transfer arrangements does not specifically provide for standard-form approval or block exemptions. On its face the combined INPI—SEI system does not provide for speedier evaluation of contracts. It does, however, provide specialist input into decision-making by persons whose specific responsibility is the promotion of the national informations systems sector. While this may give rise to the possibility of an excessively protectionist attitude in favor of national suppliers of software, it is to be expected that the SEI officials on the parity commission will be particularly sensitive to the advantages to the Brazilian user of particular software items. It is to be emphasized, however, that the creation of SEI and the adoption of its normative acts do not imply any derrogation from INPI Normative Act 15, and the joint commission will not approve software-use agreements which are clearly in violation of that act.

SPECIAL TAX STATUS

Although the Andean Pact countries have not adopted special mechanism for dealing with software-use agreements distinct from the general rules applicable to technology transfers, the Colombian tax law now contains special provisions for software. As a result of the adoption by Congress of Law 9 of 1983,[34] royalty payments for general technology transfer are subject to a 40% withholding tax and a 12% remittance tax on the net value after withholding, giving an effective tax rate of 47.2%[35] on the gross payment upon remittance abroad. In the case of computer programs, the withholding and remittance tax rates are unchanged but are calculated, respectively, on 80% of the gross royalty payment and 80% of the net payment after withholding tax. It amounts to an overall tax rate of 38.53% on the gross royalty payment upon remittance abroad.[36]

One other activity benefits by preferred tax treatment in this sector namely rental payments for movies which are treated by the Colombian tax law as being similar to royalties for technology transfer or industrial property use. The reasons for the preferred tax treatment to movies are patently political and derive both from the power of the international movie distributors and the Colombian public's addiction to the silver screen. The preferred treatment given to computer programs may also be seen as political and reflecting the government's desire to encourage Colombian participation in the information systems area. A special committee has been established within the Royalties Committee[37] to deal with the movie sector. At the beginning of 1984 Colombia has shown some indications of following the Brazilian example of establishing a special body to advise on international software-use contracts.

CONCLUSION

In Latin American countries that have adopted a policy of controlling the terms of international technology-transfer contracts the transfer of software use poses considerable legal and practical problems. Only one country, Brazil, has chosen to meet them directly by adopting specific measures to evaluate software-use agreements and by creating a special body to participate in such evaluation along with the institution charged with evaluation of all technology transfers. In Mexico special rules have been adopted but without creating specific institution to implement them. The Andean Pact countries have yet to react with similar measures and no substantial consideration has yet been given to the specific characteristics of software as distinct from more traditional technology, and to the possibility of approving standard-form agreements or issuing block exemptions for certain types of software as a means of speeding up the evaluation process.

NOTES

1. Argentina, Bolivia, Brazil, Colombia, Ecuador, Mexico, Peru, Venezuela.
2. Brazil, Ato Normativo 15 (INPI) s. 4. 5. 2(d) (vi); Mexico, Technology Transfer Law 1981 s. 15(xi) and Regulation of November 16, 1982 s. 56 (in certain cases a confidentiality obligation is accepted when it is considered necessary in order to obtain a particular technology); Peru, Resolution 005-81-EFC 35 (CONITE) s. 20(c) (confidentiality obligation is accepted); Venezuela, Decree 746 s. 1(a) and (b). In Colombia the Royalties Committee applies the principle as a matter of practice.
3. On this topic c.f. generally D. Bender "Computer Software Licensing" in Finnegan and Goldscheider (eds) *The Law and Business of Licensing* (New York, Clark Boardman & Co.) p. 2A-21; A Rose "Protecting Computer Programs" in *Les Nouvelles* Vol 16 N° 4 p. 309; A. Lucas *La protection des creations industrielles abstraites* (Paris, Librairies Techniques 1975) pp. 6-17, 113-117, 150-163, 184-196.
4. *Gottshalk* v *Benson* 409 U.S. 63 (1972); *Dann* v *Johnson* 425 U.S. 219 (1976); *Parker v Flook* 437 U.S. 584 (1978) *Diamond, Commissioner of Patents and Trademarks v Diehr* 209 USPQ 1 (1981)
5. Lucas op. cit p. 162; European Patent Convention Art. 52 (2) (c). Note however that the French Cour de Cassation has admitted that a system which includes a computer program can be of an industrial character, Com 24 janv 1972: Bull, Civ, IV N° 28 p.28
6. *Copyright Act* 17 USC 117 s.117 and *Computer Software Copyright Act* 1980 s. 3
7. The definition of technology given in Article 1 of that decision is "the body of knowledge essential for carrying out activities necessary for the transformation of raw materials into products, the use of such products and the provisions of services" (author's translation).
8. Article 4.1 of Normative Act 15 declares that provision of industrial technology is a "contract whose specific object is the acquisition of know-how or techniques not covered by industrial property rights applied for or granted in (Brazil) which will be applied to the production of consumer goods or materials in general" (author's translation).
9. In Venezuela Decree 746 of 1975 Article 7; in Peru Resolution 005-81-EFC/35 of CONITE Article 10; en Mexico "Ley sobre el control y Registro de la Transferencia de Tecnologia y el Uso y Explotacion de Patentes y Marcas del 29 de diciembre de 1981 (D.O. 11/1/82) Art. 10.
10. c.f. document entitled *"Concesion de licencias de soporte logico de computadora ("software")* 1D/Wcr. 383/3 of November 3, 1982.
11. Reglamento de la ley sobre el control y registro de la transferencia de tecnologia y el uso y explotacion de marcas y patentes, adopted November 16, 1982; published on November 25, 1982, in force on November 26, 1982 (the "Regulation").
12. Regulation s. 25.
13. J. Alvarez Soberanis: "La nueva ley sobre Transferencia de Tecnologia: aciertos y limitaciones de la politica gubernamental" 32 *Comercio Exterior* 1117 (October 1982) p. 1120.
14. Regulation s. 20.
15. Regulation s. 23.
16. Regulation s. 24.
17. Regulation s. 20.
18. Regulation s. 21.
19. Regulation s. 29.
20. Regulation s. 23.
21. Regulation s. 24.
22. Regulation s. 25.
23. Regulation s. 25.
24. Regulation ss. 26 and 66-72; Technology Transfer Law of December 29, 1981, ss. 18-23.
25. Regulation s. 27.
26. Regulation s. 30.
27. Decree 84.067 of October 8, 1979, Leg. Fed 1979 p. 780 (The author wishes to express his gratitude to Dr. C.A. Menezes dos Santos of Sao Paulo and Paris for providing copies of relevant Brazilian legislation and Peter Dirk Siemsen of Rio de Janeiro for copies of judicial decisions).
28. Ato Normativo N° 1 Secretaria Especial de Informatica March 27, 1980, Leg. Fed 1980 p.550.
29. Decree 84.067 Art. 4 XIX (author's translation).
30. Decree 84.067 Art. 4 XXII (author's translation).
31. Law 5772 of December 21, 1971, Arts. 30 and 126 INPIs jurisdiction to "approve" rather than simply register technology transfer agreements may be said to derive not so much from the Industrial Property Code of 1971 but rather from Section 2 of Law 5648 of 1970 creating INPI c.f. decision of the Tribunal Federal de Recursos 88.900 R J 1587110 *Resana S/A Industrias Quimicas vs Instituto Nacional de Propriedade Industrial.*
32. Normative Act 053 of INPI and 013/81 of SEI of February 12, 1981.
33. Normative Act 017/81 D.O.V. 13.07.81 p. 13015.
34. c.f. also implementing decree N° 2579 of September 12, 1983.
35. Law 9 of 1983 Sections 46(c) and (2).
36. Law 9 of 1983 Sections 46(e) and 2 and 47(e).
37. Decree 2771 of 1983 (Ministry of Economic Development) *Legislacion Economica* N° 747 p. 620.