Licensing Software in Latin America

The impact of technology transfer laws on computer software licensing; ways to limit impact

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The single most important issue for companies that intend to license or otherwise market computer software in Latin America is to determine whether the jurisdiction where the licensee, purchaser or lessee of the software is located has a technology transfer law and, if it does, whether that law is applicable to the proposed software transaction. Most major Latin American jurisdictions adopted some form of technology transfer legislation during the 1960s and the 1970s in conjunction with their programs of industrialization and economic development.

In theory, the technology transfer laws were drafted to prevent technological imperialism in the region. As a result, most of these laws provide for prior government approval and registration of all contracts involving the importation of technology. These laws often limit the amount of consideration that can be paid for imported technology, require certain contract provisions, regarding the effective transfer of the technology (e.g., mandatory training provisions), and prohibit restrictions on the licensees' use of the technology subsequent to the termination of the license agreements.

The legislative history of the technology transfer laws in each of the jurisdictions discussed in this article indicates that the legislation is directed primarily to transfers of manufacturing and production technology and know-how. As discussed below, however, at least in Brazil, Mexico and Venezuela, the government transfer laws have taken the position that software licenses are, in effect, technology transfer transactions. As a result, the licensing of software to customers in each of these jurisdictions is, or may be, subject to the full range of registration requirements and legal restrictions embodied in the local technology transfer laws. The fact that the technology transfer laws are directed principally to manufacturing technology licenses, rather than to software licenses (which may be functionally more nearly equivalent to a lease of tangible personal property) presents the United States software firm that wishes to market its products in Latin America with a number of difficult and unfamiliar problems. Of particular importance is the extent to which the software licensor's ownership and control of the intellectual property (trade secrets) embodied in the software is placed at risk by the fact that the technology transfer laws in these Latin American countries generally prohibit post-termination contractual restrictions on the licensee's use of licensed technology. Even if the licensor's program for protecting its intellectual property is based on patent or copyright law, the scope of protection is not clear, because there is authority in some of these jurisdictions for the proposition that the restrictions in the technology transfer laws supersede the protection afforded by the local patent and copyright laws.

This article will briefly survey the technology transfer laws of Argentina, Brazil, Mexico, and Venezuela and their application to agreements involving the importation of computer software. We then review the impact of these laws on the principal clauses typically found in software license agreements, and briefly describe possible means of limiting the impact of the technology transfer laws on the intellectual property protection of the computer software owner/licensor.

SURVEY OF SELECTED TECHNOLOGY TRANSFER LAWS AND THEIR APPLICATION TO SOFTWARE LICENSE AGREEMENTS

Argentina

Scope: Application to Software License Agreements—The transfer of technology from a foreign licensor to an Argentine licensee is governed by the Argentine Technology Transfer Law, Law No. 22,426 of March 12, 1981, and its Regulations, Decree No. 580/81 (hereinafter referred to collectively as Technology Transfer Law). For these purposes, "technology" is defined as, *inter alia*, "any technical knowledge for the manufacture of a product or the rendering of a service."

It is not clear whether software falls within this definition of "technology" for purposes of the Technology Transfer Law.[1] Government sources, however, have unofficially stated that the Argentine Technology Transfer Registry, the agency charged with the administration of the Technology Transfer Law, does not *currently* consider software license agreements to be subject to the registration requirements of the Technology Transfer Law, because software, unlike manufacturing know-how, is not usually applied to a "productive process" or the "rendering of a service." Some Argentine lawyers, however, are of the opinion that, to the extent software is licensed to either a related or unrelated Argentine party who in turn will use the software to render services to third parties, the software does constitute "technology" for purposes of the Technology Transfer Law.

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Approval and Registration—If a software license agreement comes within one of these situations where it constitutes "technology" for purposes of the Technology Transfer Law, and if the Argentine licensee is a related party (an Argentina company in which the foreign licensor directly or indirectly owns more than forty-nine percent of the capital), the software license agreement is subject to approval by and registration with the Argentine Technology Registry. Such approval and registration will be forthcoming only after the Registry had determined that the provisions of the agreement are not contrary to normal practices between independent parties and that the agreed-upon consideration "bears a reasonable relationship" to the licensed technology. While the Technology Transfer Law does not define what constitutes "normal practices," the following provisions might be considered to deviate from "normal practices": licensing obsolete technology, restricting exports or disclaiming liability on the part of the licensor. The Technology Transfer Law presumes that the consideration or royalty bears a reasonable relationship to the technology if the consideration does not exceed five percent of the value of the goods manufactured or the services rendered on the basis of the licensed technology.

If the licensee is an unrelated Argentine licensee, the Technology Transfer Law does not require prior approval of the software license, but merely requires registration of the agreement for statistical purposes only. Even though the Technology Transfer Law does not regulate the terms and conditions of such a license agreement, the authorities may refuse the registration (even for statistical purposes) if they believe that the royalties are unreasonable or the real purpose of the agreement is not the transfer of technology.

In either case, however, the Technology Transfer Law does *not* regulate or otherwise limit the terms of the license agreement. In the case of an agreement between related parties, however, an excessive term may be rejected if found to be contrary to "normal practice between independent parties."

Failure to Register—If a license agreement falls within the scope of the Technology Transfer Law and is not registered, the agreement is still valid between the parties but will result in the following adverse tax consequences under the Argentine Income Tax Law and Emergency Income Tax Law (collectively the ITL): (i) the royalties will not be deductible by the licensee for purposes of the ITL; and (ii) payments to the licensor will be subject to a 45% withholding tax, instead of the standard 18% withholding tax.

Brazil

Scope: Application to Software License Agreements—Under the Industrial Property Code, enacted on December 21, 1971 pursuant to Law No. 5772, and Regulation No. 15 promulgated by the National Institute of Industrial Property (INPI), as subsequently amended and complemented, INPI is charged with the responsibility of approving and registering agreements dealing with the transfer of patented and unpatented technology, know-how, trademarks, and technical assistance. In this regard, INPI considers software license agreements and other types of agreements involving the importation of software into Brazil as the equivalent of technology transfer agreements, and therefore treats such agreements as subject to the approval and registration requirements of INPI Regulation No. 15.

Approval and Registration—INPI views any license agreement of unpatented know-how, such as unpatented software, as a *sale* rather than a license of technology. In such cases, INPI will only permit certain rights of a licensor to the technology (e.g. confidentiality of trade secrets) to be protected contractually, and then *only during the term of the license agreement.* After expiration of the term of the agreement, consistent with treatment of the transaction as a sale of technology, INPI will consider the licensee to be the owner of the technology. In most cases, the maximum term for technology transfer agreements that INPI will approve is five years, even though INPI may permit a licensor to impose non-disclosure restrictions on the Brazilian licensee for a period of up to two years beyond the term of the license agreement.

Pursuant to INPI regulations, INPI may refuse to approve a license agreement if it contains terms and conditions deemed detrimental to the Brazilian licensee. For example, INPI will not approve a technology transfer agreement involving software if it recites that the licensee must provide free of charge to licensor improvements to the software developed by the licensee. INPI will probably not approve broad limitations on warranties. Finally, clauses which restrict the licensee's product research and development or which attempt to limit licensor's liability for infringement of the rights of third parties which are attributable to the licensee's use of the software will not be approved by INPI.

With respect to technology transfer agreements generally, INPI closely governs the amount of royalties payable by Brazilian licensees for foreign technology. Normally, the maximum royalty that INPI is likely to approve is 5% of the net sales price of the products produced by use of the licensed know-how. Such a restriction on consideration has little meaning in the context of software that has no direct manufacturing application. In such circumstances, INPI will probably limit the consideration payable by the Brazilian licensee to what INPI determines to be the value of the licensed software, based on the technical sophistication of the software and the perceived benefits of the software to the Brazilian economy.

Agreements in Brazil involving software are also subject to the approval of the Brazilian Special Secretarial of Information (SEI). SEI's review of the software agreements will be based in large part on the guidelines set out in SEI Regulation No. 22/82. In this Regulation, SEI defines the term "software," classifies software in three categories, and states the priority of each category. SEI gives priority to Category A, software developed in Brazil by Brazilian residents or Brazilian legal entities controlled by Brazilian residents. In spite of the preference for Brazilian software, the SEI Regulations contemplate approval of agreements involving foreign software where there is no acceptable Brazilian alternative.

To coordinate their jurisdiction over software licenses, SEI and INPI have issued a joint regulation creating a joint Review Board to determine the advisability of approving license agreements involving technology or know-how related to the computer industry.[2] The joint SEI/INPI Review Board will attempt to determine whether the software covered by the proposed license agreement is available locally, and, if not, whether the same or similar software is likely to be available from Brazilian sources in the new future.

Failure to Obtain Required Approval—The failure of a licensor of software to obtain INPI approval for a proposed license agreement will have the following effects in Brazil: (i) no royalty payments or other consideration may legally be made to the licensor; (ii) any Brazilian tax deductions normally available to the Brazilian licensee under the license agreement will be denied: and (iii) there will be serious doubt over the enforceability in Brazil of the agreement against third parties.

Mexico

Scope: Application to Software License Agreements—Mexico's Law on the Control and Registration of the Transfer of Technology and the Use and Exploitation of Patents and Trademarks of December 29, 1981 (the Technology Transfer Law) expressly identifies agreements involving "computer software programs" that have or may have an effect in Mexico as being subject to the approval by, and registration with, the Mexican National Registry of Technology Transfers (the Technology Registry). The Regulations to the Technology Transfer Law, which were promulgated on November 16, 1982, however, expressly exempt from the approval and registration process (i) programs whose sole function is recreation and entertainment; (ii) operating systems incorporated into products whose principal function is not to process information (e.g., appliances, tools, and similar items); and (iii) programs not capable of functioning on computers where the internal length of a word may exceed 8 bits and the central memory capacity exceeds 48K. If there is any doubt as to whether an agreement involving software is subject to registration under the Technology Transfer Law, the parties to the agreement must request the opinion of the Technology Registry.

Registration and Approval—Software license agreements with a Mexican distributor and/or end user must be submitted to the Technology Registry for approval and registration within 60 days after execution. If so submitted, registration is made retroactively effective to the date of execution. Otherwise, registration is effective only from the date of submission of the agreement to the Technology Registry.

The Technology Transfer Law identifies a number of contractual provisions that will not be allowed in technology agreements. Pursuant to those provisions of the Technology Transfer Law, the Technology Registry will not approve agreements that contain, *inter alia,* clauses that:

(i) permit the licensor to regulate or intervene directly or indirectly in the administration of the licensee;

(ii) require the licensee to assign or grant a license to the licensor with respect to the technology, patents, trademarks, inventions or improvements developed by the licensee, except in those cases where the agreement provides for reciprocal exchange of information, or confers some other analagous benefit on the licensee.

(iii) establish limits on the technological research and development of the licensee;

(iv) require the licensee to purchase equipment, tools, parts, or raw materials exclusively from a determined source, when alternative sources exist on the national or international markets;

(v) prohibit or limit the exportation of goods or services produced by the licensee;

(vi) prohibit the use of complementary technology by the licensee;

(vii) require the licensee to sell the goods that it produces to an exclusive client;

(vii) require the licensee to use on a permanent basis personnel designated by the licensor;

(ix) limit the production volumes of the licensee or impose sale or resale prices on the licensee for local production or exports;

(x) require the licensee to enter into exclusive sales or representation agreements with the licensor, except in the case of exportations, if the licensee accepts the obligation and it is established to the satisfaction of the Technology Registry that the licensor has adequate distribution mechanisms or enjoys the necessary commercial prestige to carry out the commercialization of the products under better conditions than the licensee; and

(xi) *require the licensee to maintain as confidential the technical information supplied by the licensor, beyond the effective term of the agreement* or such other terms as may be established by applicable laws.

The Technology Registry may also deny registration of an agreement if the licensor does not expressly assume responsibility in the event of infringement of industrial property rights of third parties, if the licensor does not guarantee the quality and results of the technology covered by the agreement, if the licensed technology is freely available in Mexico, if the consideration is "not in proportion to the technology acquired" or is an "unjustified or excess burden" to either the Mexican economy or the licensee, if the term of the license is excessive (in no case more than ten years), if foreign law governs the agreement, or if foreign courts are given jurisdiction over disputes relating to the agreement.

The Technology Transfer Law does not itself specify any percentage limitation on royalties or fees, but Mexican authorities have traditionally set an unofficial limit of three percent of net sales on royalties paid by local licensees to foreign licensors for manufacturing know-how, patents, and trademarks. In the case of software licenses, however, this unofficial limit makes little sense, since it is calculated on the basis of net sales of products produced using the licensed technology. To date, no official or unofficial limit has been developed for software. Thus, the royalties for each software license agreement must be discussed and negotiated separately with the Technology Registry.

Finally, many of the prohibited clauses outlined above are directed to license agreements involving manufacturing know-how, and, as such, are of little relevance in the context of software licenses. In the past some of these prohibitions have been overcome by characterizing the license as an indefinite term lease agreement, subject to termination for breach or by mutual agreement. This avoids two different problems usually encountered under the Technology Transfer Law: (i) a term not in excess of 10 years; and (ii) limiting the confidentiality provisions to a period not in excess of the term of the agreement.

Failure to Comply—Technology transfer agreements which are not approved by and registered with the Technology Registry are without legal effect in Mexico, and, accordingly, will not be recognized by any public authority in Mexico or enforced by Mexican courts. For income tax purposes, therefore, deductions are not allowed for royalties or technical assistance fees paid under unregistered license agreements, and a licensee under an unregistered agreement may not benefit from government incentives. Furthermore, any person or entity that fails to comply with the approval and registration requirements may be subject to a fine of up to the amount of the total consideration payable under the agreement, or up to ten thousand times the general minimum daily salary in Mexico City (as of June 11, 1984, the minimum daily salary in Mexico city is 816 Mexican pesos).

Venezuela

Scope: Application to Software License Agreements— Under the Venezuelan technology transfer rules, as contained in Decree 2.442 and a series of other decrees incorporating Decision No. 24 of the Commission of the Andean Common Market, all contracts entered into after January 1, 1974 between companies organized under the laws of Venezuela and non-domiciled foreign companies regarding the importation of technology, and/or the use of patents and trademarks in Venezuela must be authorized by, and registered with, the appropriate Venezuelan agency, which, in most instances, is the Office of the Superintendent of Foreign Investments (SIEX). Most specifically, the agreements subject to SIEX approval and registration are those involving the following:

(i) The right to use and/or exploit trademarks and to distribute products bearing trademarks owned by non-Venezuelan persons and companies;

(ii) The right to use and/or exploit patents and industrial designs;

(iii) Technical know-how, in the form of plans, diagrams, models, instructions, formulations, specifications, training of personnel, and generally, through any other means;

(iv) Basic and detailed engineering in order to erect installations, manufacture products, and carry on industrial and construction projects;

(v) Technical assistance in general; and

(vi) Services concerning the management and operation of companies.

For purposes of these rules, it is completely irrelevant whether the agreement provides for: a sale or simply a license to use the technology, patents and/or trademarks; *or* a royalty-free transfer.

Several American software firms have sought rulings from SIEX that Decree 2.442 was not applicable to software licenses, arguing that the technology transfer rules were intended to cover manufacturing licenses only. In these ruling requests the parties sought to characterize licenses granting the right to use computer programs as *leases of tangible personal property* (i.e., the media on which the programs are inscribed), which are not subject to review and approval by SIEX. The standard SIEX response, however, has been to reject this characterization and rule that the proposed software license agreements are subject to SIEX review. Thus SIEX's position (albeit not explicitly stated) is that computer program license agreements are agreements for the importation of technology within the meaning of Decree 2.442.

Notwithstanding SIEX's standard response, in a recent ruling, SIEX suggested that a *sale* of software does *not* constitute a licensing of technology but rather the sale of an asset subject to depreciation, and therefore is not subject to SIEX approval. This ruling, however, cannot be automatically extended to other forms of contracting for technology, and, as such, the ruling may be of little value to most software firms that purport to license, rather than sell this software in order to maintain contractual trade secret rights against their customers with respect to software license agreements SIEX continues to examine and approve or reject software license agreements based on the traditional criteria.

Approval and Registration—SIEX reviews license agreements on the basis of the following rules. First, the technology transfer rules identify certain contractual formalities that must be embodied in any license agreement that is subject to SIEX review. These formalities include the following:

(i) Identification of the parties, including the domicile and nationality thereof.

(ii) Description of the technology, patents, and trademarks. In this connection, the foreign company must establish its legal title under Venezuelan law to the patents and trademarks, if any, identified in the agreement. This requirement is met only if the foreign company submits to SIEX copies of the corresponding certificates of ownership issued by the Venezuelan Industrial Property Registrar.

(iii) Terms and conditions governing the transfer of rights, information and related assistance to the Venezuelan company. This rule requires that the agreement provide for the actual procedure and schedule of the disclosure of information to the Venezuelan company, including the place(s) and date(s) thereof.

(iv) Allocation of the consideration to be paid by the Venezuelan company among the technology, patents, and trademarks contemplated in the agreement.

(v) Terms of the agreement. *The agreement may not extend beyond a term of five (5) years from the date of registration of SIEX.* By way of exception, SIEX may authorize a term of up to fifteen (15) years from the date of registration upon approval of the competent Ministry of the Venezuelan government. It does not appear, however, that SIEX has ever applied this exception.

(vi) Form and place of payment. Under Venezuelan law, the parties to a contact may choose a particular currency as the currency of payment thereunder. The choice, however, must be expressly provided for in the contract.

(vii) Obligation of the foreign company to provide training to the personnel of the Venezuelan company. Pursuant to this rule, the parties to the agreement must also submit a detailed program to SIEX outlining the scope, location, schedule, and personnel requirements of the training courses to be conducted by the foreign company in performance of this obligation. This training program is usually contained in a schedule to the agreement, and unless presented to SIEX, the agreement will not be approved and registered by SIEX.[3]

Second, SIEX will refuse to authorize or register agreements containing any restrictive clauses. Of particular importance in the contract of software license agreements are the following restrictions clauses, which SIEX will generally reject:

(i) Clauses prohibiting the use of competing technologies by the local company.

(ii) *Clauses prohibiting the use of the technology by the Venezuelan company upon termination of the contract.*

(iii) Clauses requiring the Venezuelan company to license or transfer to the foreign company inventions to technical improvements developed by the Venezulan company as a result of its activities under the contract.

(iv) Clauses requiring the Venezuelan company to pay a royalty to the foreign company for technology which not actually transferred under the contract.

(v) Clauses providing for the payment of a royalty in the event that that Venezuelan company purchases the technology, patents, and trademarks from the foreign company.

(vi) Clauses requiring the Venezuelan company to pay taxes for the account of the foreign company.

(vii) Clauses which submit claims and disputes arising under the contract to the jurisdiction of non-Venzuelan courts.

(viii) Clauses by which the foreign company disclaims all liability with respect to the use and application of the given technology, patents, or trademarks by the Venezuelan licensee.

Finally, as part of its review process, SIEX will carefully examine the consideration to be paid by the Venezuelan company to determine if such consideration is "reasonable." SIEX is required by law to make this determination by reference to the expected earnings of the Venezuelan company under the agreement and the proposed sales price of the products covered under this agreement. Regrettably, SIEX has never published specific guidelines illustrating the application of these statutory standards. In the past, however, royalties for the use of trademarks in excess of one percent of the gross receipts derived from the sale of the products covered by an agreement, and royalties for the use of patents, know-how, and related technical assistance in excess of three and one-half percent (3½ percent) of the licensee's gross receipts from the sale of products embodying the licensed technology have generally been viewed as unreasonable by SIEX. These guidelines, of course, make little sense in the context of licensed software which has no direct manufacturing application, since the basis for calculation is expressed in terms of a percentage of the gross receipts derived from the sale of products manufactured pursuant to the license agreement. In part because such software license agreements do not fit within SIEX's traditional framework, SIEX has indicated its willingness to approve fees for software licenses that are significantly higher than are those that have been approved for other technology license arrangements.

Failure to Comply—License agreements subject to SIEX regulations which have not been approved and registered with SIEX are null and void for all purposes in Venezuela, even as between the parties to the agreements. As a consequence, a foreign company will not be able to enforce in Venezuela its contractual right to receive a royalty or other payments under an unauthorized and unregistered license agreement, nor will it be able to enforce any other terms of such an agreement in Venezuela. Similarly, the licensee under such an agreement will not be able to deduct for purposes of the Venezuelan income tax amounts paid by it to the foreign licensor pursuant to such an agreement.

IMPACT OF TECHNOLOGY TRANSFER LAWS ON COMMON CONTRACTUAL PROVISIONS

Problem Provisions in Standard Software License Agreements

As discussed above, the technology transfer laws in each of the foregoing jurisdictions (except perhaps Argentina) generally require the review and approval by the technology transfer authorities of any proposed computer software license agreement. During this review and approval process, the technology transfer authorities will reject agreements containing certain clauses that are deemed to be contrary to the underlying policies of the technology transfer laws.

In this regard, in 1982 the United Nations Industrial Development Organization (UNIDO) issued guidelines that discussed a number of clauses typically found in software license agreements and made recommendations as to whether developing countries should authorize such clauses. The recommendations contained in the UNIDO Guidelines closely parallel the response of Latin American technology transfer authorities to certain clauses typically found in software license agreements.

Warranty of Noninfringement and Other Warranties—Because of the rapid development and innovation in the software industry, licensors of software typically wish to avoid giving their licensees a warranty that the software does not infringe the proprietary rights of any third parties. This is especially true with respect to software that is not subject to patent or copyright protection, and thus is protected, if at all, by contractual trade secrecy provisions. Even if such a warranty cannot be avoided altogether, licensors may try to restrict the scope of any noninfringement warranty by, *inter alia,* limiting the geographical area of the warranty and by requiring a final court judgment with respect to the infringement before any indemnification of the licensee is required.

The UNIDO Guidelines recommend that software licensors be required to warrant that their products do not infringe the rights of any third parties. In our experience, most Latin American technology transfer authorities will not approve license agreements in which the licensors either disclaim responsibility in the event of infringements of the rights of third parties or fail to give a warranty of noninfringement. This position is consistent with the underlying policies of the technology transfer laws, which treat the licensee as a buyer of software under an installment sales contract.

In our experience, a licensor has at least two possible alternatives with respect to the warranty of noninfringement of third party rights: (i) omission of any reference to infringements of third party rights, in which event the reviewing authorities may be more likely not to detect the lack of a noninfringement warranty; or (ii) a narrowly worded warranty that sets a limit on the total liability of the licensor in the event of infringment, and qualifies the licensor's obligation to indenmify the licensee on the basis of proper notice and control of any infringement litigation brought by a third party against the licensee. If carefully worded and qualified, a warranty of noninfringement of third party rights can come close to approximating the protection of a total disclaimer.

Technology transfer authorities will also react negatively to disclaimers of other types of product warranties and in some jurisdictions they may require the addition to the license agreements of certain types of warranties. For example, in Venezuela, SIEX may require the inclusion of a warranty by the licensor that the know-how has been commercially used elsewhere by the licensor and is being transferred to the licensee in the same condition as used commercially by the licensor.

Even though some product warranties may be required by the technology transfer authorities, a common mistake made by United States software firms is to extend to Latin American licensees the typical warranties granted to United States licensees. Such a step may be unnecessarily generous, since civil law jurisdictions do not traditionally require warranties as extensive as those normally granted in the United States.

Restrictions on Use of Software/Non-disclosure Clauses- Software license agreements commonly impose a variety of use restrictions on the licensee, such as the following: (i) no copying; (ii) no disassembling; (iii) no disclosure to or use by third parties; (iv) no sublicensing; and (v) no use of the program on a computer other than one designated in the license agreement. The UNIDO Guidelines specifically recommend that restrictions of use of the licensed software to the licensee's plant or other specific location *not be permitted.*

Most Latin American technology transfer authorities have, in the past, been willing to accept restrictions on the licensee's use of the licensed software provided that: (i) the restrictions are reasonable; and (ii) *the restrictions do not exceed the term of the license agreement.* The difficulty in this area principally arises where the license agreement attempts to impose limitations on use of licensed technology subsequent to the termination of the license agreement. Perhaps the most common restriction in this regard is a non-disclosure obligation. The technology transfer authorities are consistently adamant in rejecting use restrictions extending beyond the term of the license agreement, because any such restrictions are contrary to the licensee's deemed "ownership" of the software upon the termination of the agreement.

The full implications of the prohibition on post-termination use of licensed software should be emphasized. This prohibition may place at risk the software licensor's ownership and control of the intellectual property embodied in the software, at least if the licensor relies on contractual trade secrecy provisions to protect its intellectual property. Because the licensee may be deemed to be the owner of the software, and may not therefore be restricted from using the software at the end of the term of the license, and because the technology transfer laws limit the time of such agreements to a relatively short period of time (e.g., five years), the licensee may be free, at least under local law, to reproduce and sell the licensed software in its country of residence long before the licensor intended to permit the software to pass into the public domain. Moreover, customers, purchasing reproduction of the software from the quondam Latin American licensee would be under no trade secrecy contractual duty to the software licensor. As such, the prohibition on imposing restrictions on the licensee's post-termination disclosure and use of licensed software may be the single most difficult problem, and may be the single greatest risk, arising from the application of Latin American technology transfer risks to computer software licenses.

In some jurisdictions, however, it may be possible to impose restrictions on the licensee's post-termination use of licensed software, in the event that the license agreement is terminated due to breach or default by the licensee. Such a restriction may provide the licensor with adequate protection, at least where the particular software product is highly likely to be obsolete by the stated expiration date of the license agreement. In our experience, the technology transfer authorities have been sympathetic to the obvious injustice to the licensor if a licensee is permitted to terminate an agreement early by its own default and thereafter continue to enjoy the full benefits of the software as the "owner" without any adverse consequences. This conduct would be particularly egregious under those license agreements that provide for a continuing, periodic royalty. Because of these potential in justices, the technology transfer authorities of several Latin American jurisdictions do permit certain restrictions to exceed the early termination of an agreement due to a default of the licensee.

In some limited cases, the technology transfer authorities have indicated a willingness to treat use rstrictions in software license agreement differently from restrictions in other types of technology license agreements. For example, in Venezuela, SIEX has approved a software lciense agreement requiring the return, or at the option of the licensor, the destruction, of the licensed software upon the expiration of the license agreement. This different treatment for software does not appear to be based on any government mandated policy regarding software; rather, it appears to be simply a reflection of the recognition by the authorities that somehow software is unique and is entitled to different treatment. It should be emphasized, however, that SIEX approval for such a restriction on post-termination use of licensed software does not necessarily guarantee that the restriction will be enforced by the Venezuelan courts. To the best of our knowledge, such a restriction in a software license has not yet been subject to judicial consideration in Venezuela, and in any action brought by a foreign licensor to enforce the clause, the licensee would be free to argue that the clause violates the Venezuelan technology transfer rules, notwithstanding SIEX approval.

Consideration/Royalty—The technology transfer laws in Latin America all attempt to control in some fashion the amount of royalties or other consideration to be paid for the licensed technology. Due to Latin America's current debt crisis, the technology transfer authorities are reviewing the payment provisions of license agreements even more cautiously than before. In this regard, the UNIDO Guidelines do not, and, of course, cannot recommend the proper amount of royalties or other consideration payable for software licenses, but the Guidelines do express a preference for a fixed or one-time payment for both custom software and packaged or off-the-shelf software.

As suggested above, the rules normally applied by the technology transfer authorities to limit the amount of consideration paid for technology are difficult to apply to software licenses. The Brazilian rules offer an example of this problem. INPI usually will not approve a royalty in excess of five percent (5 percent) of the net sales price of the products being produced by use of the licensed technology. This rule cannot be easily applied to situations where the software has no direct manufacturing application.

Typically, because a software license is often more akin to a sale or lease than to a license of manufacturing technology, the consideration will be stated as a one-time payment or fee, or as a series of payments that are not (and cannot be) tied to a percentage of the licensee's sales. Such arrangements are more likely to receive favorable review by the technology transfer authorities than are percentage royalties that exceed the permissible percentages provided for in the technology transfer rules. This result may be particularly applicable if the consideration payable by the licensee is broken down into its component elements (e.g., a basic license fee, an installation and training fee, an update service fee, etc.). It should be emphasized however, that even if the license agreement provides for the payment of a single fee, rather than a percentage royalty, the amount of the payment will be subject to review by the technology transfer authorities, and may be rejected if it is deemed "unreasonable."

Term/Duration—The technology transfer laws limit the term of a license agreement to a period of between 5 to 10 years. Some jurisdictions will renew or extend these terms for an additional period of 5 to 10 years, but normally will do so only upon proof that new technology has been licensed in connection with the extension. The UNIDO Guidelines recommend that the duration of software licenses be limited to a term no greater than the amount of time required for the licensee "to absorb and use" the licensed software.

The duration of software license agreements is of particular importance because of many of the permissible restrictions on the licensees (including trade secrecy provisions) will be approved *for the duration of the license agreement only.* A commonly used means of limiting the impact of the limitations on duration is simply to license older technology, initially creating a built-in obsolescence. Thus, after the agreement expires, the licensor will not be particularly worried about the lack of an enforceable nondisclosure provision. As noted above, however, the INPI in Brazil may reject software licenses that cover only obsolete technology. A variation on this approach is to renew or extend the license agreement by licensing new software to replace the obsolete software. Such arrangements will, however, be closely examined to determine if the licensor is, in fact, transferring valuable new technology or software. Moreover, in order for this approach to be successful the new software must be something not already encompassed in the licensor's maintenance obligations.

Maintenance and Training Obligations—The technology transfer laws do not specifically require that software license agreements impose on the licensor the obligation to maintain or update licensed software programs. Some of the technology transfer laws, however, such as the Venezuelan legislation, impose a training obligation on the licensor. The licensor should carefully draft a training provision to assure that its obligation is "to provide training" and not "to train." Furthermore, any such training responsibility should attempt to create an objective measure of performance (e.g., number of hours of training courses), identify when and where the training will occur, identify the party responsible for costs related to the training (e.g., the travel and hotel accomodations of the licensee's employees if they must travel to the licensor's offices for training) and limit the liability of the licensor for acts of the licensee's employees during the training.

Choice of Foreign Law/Jurisdiction—Because the choice of law and choice of forum clauses are routinely buried in the back of license agreements, together with "boilerplate" clauses, many licensors and attorneys often treat such clauses as afterthoughts in the contracting process, or believe that United States law and United States courts should always be selected. Either situation could potentially create significant adverse consequences for the licensor. In the first place, it is absurd to draft an entire agreement without knowing which law is going to govern the agreement. This obvious observation aside, some technology transfer laws do not permit the registration of license agreements that provide for foreign law as the governing law, and/or provide for foreign courts as the forum for dispute resolution. In Venezuela, the technology transfer rules prohibit the registration of any agreement that provides for jurisdiction in non-Venezuela courts. SIEX has taken an expansive view of this prohibition by stating that the governing law may not be non-Venezuelan law. Similarly, the Mexican technology transfer rules expressly prohibit the choice of foreign law or foreign dispute resolution.

One possible alternative to the choice of law situations is to be silent in the license agreement and rely on the basic principles of conflicts of law in subsequently asserting that United States law (the law of one of the states) governs. If this alternative is followed, the facts on which governing law will be subsequently determined (e.g., place of signing the agreement, place of performance and others) must be carefully orchestrated to assure that the licensor will be able to argue successfully for the law of its choice in the event of a dispute. By making this contractual omission, the technology transfer authorities may overlook the issue and not specifically require the addition of a clause providing for local law as the governing law of the agreement or requiring submission of disputes to local courts.

In the area of jurisdiction, one means we have used to avoid the exclusive jurisdiction in the courts of the licensee's jurisdiction is to provide for some type of dual jurisdiction. One type of dual jurisdiction clause provides that any lawsuit by the licensee against the licensor be brought in the courts of the licensor's residence, and vice versa.

Multiple Transactions—The process of submitting a software license agreement to the local technology transfer authorities, negotiating the terms and conditions (e.g., the consideration) with them, and ultimately obtaining their approval is a time-consuming and expensive process. As such, the application of the technology transfer rules in these jurisdictions can be particularly problematic for those United States software firms that distribute relatively low value, off-the-shelf software to multiple customers. If such firms were required to obtain the approval of the technology transfer authorities for each proposed license transaction, they would be effectively foreclosed from the particular markets, in that the administrative and legal costs of obtaining each approval would substantially exceed the licensee fee that potential licensees would be willing to pay for the software.

At least in this context, the technology transfer authorities in the jurisdictions surveyed in this Article (at Venezuela and Mexico) have shown a significant degree of flexibility in interpreting and applying their technology transfer rules. In Venezuela, the technology transfer authorities have approved the terms of a master software license agreement. Thereafter, the licensor has not been required to obtain prior approval of each subsequent agreement if the terms are the same as the previously approved master agreement. Instead, the licensor simply notifies the authorities of each new agreement. This procedure significantly facilitates the marketing of off-the-shelf software.

In Venezuela this procedure has developed as a matter of administrative practice. In contrast, the Mexican technology transfer regulations actually provide a mechanism by which a licensor may avoid the necessity of having repeatedly to register the same essential configurations or format when software is licensed to different users in Mexico. Pursuant to this mechanism, only the first license agreement must be filed for approval and registration with the Mexican technology transfer authorities. The application for this original registration must include the following information:

(i) Classification of the program in accordance with the Regulations;

(ii) Name and version of the program;

(iii) Date of release of the program in the country of origin;

(iv) Price;

(v) Company or office in which the program originates, indicating country of origin;

(vi) Name and general information identifying the users;

(vii) Computing equipment with which the program is to be used, and in the case of a lease agreement, term of the corresponding agreement;

(viii) Description of the functions of the program; and

(ix) Direct technical support relative to the program.

An annual report must be filed with the Registry containing the information described in points (i), (ii), (iv), (v), (vi), (vii), and (ix) above with regard to each agreement concluded during the year. Failure to file the annual report will render the subsequent agreements null and void, and may lead to the application of other legal sanctions.

Due to the novelty of the foregoing approach, the Mexican authorities have been quite reluctant to make it available to foreign software licensors. The flexibility of the Mexican technology transfer authorities, however, is reflected in their willingness to permit a variation of the procedure mandated by the regulation described above. Under this alternative procedure, a model agreement is registered with the Mexican authorities. Thereafter, each time that the same form of agreement is used, the licensor simply files a copy of the original approval together with the agreement, thus limiting the Technology Registry's review only to the financial terms of the specific transaction. Under this procedure, the time required to obtain final approval of the subsequent agreements may be reduced to as little as three weeks (as opposed to two months or more for a full review).

PREEMPTION OF STATUTORY PROTECTION

Perhaps one of the most serious unanswered issues regarding the application of the Latin American technology transfer laws to software license agreements is whether such laws have preempted the possible protection of software under other statutory provisions (e.g., patent and copyright laws). This problem is in addition to the dire consequences that may result if a licensor's trade secrets enter the public domain of the licensee's jurisdiction by operation of law subsequent to the termination of a license agreement registered under a technology transfer law.

The Latin American technology transfer laws have not replaced traditional statutory schemes for protecting intellectual property, such as patent and copyright laws. Thus, in addition to the approval and registration of a software license agreement under the technology transfer laws, the licensor/owner may also register the software under the patent or copyright laws.

As in the case elsewhere in the world, the law in Latin America is not clear as to whether the best protection of a software owner's intellectual property rights in the software is by means of patent, copyright, or trade secret. Several jurisdictions have specifically excluded software from protection by patent (e.g., Mexico and Brazil). Copyright protection tends to be favored by more jurisdictions than does patent protection. For example, although not clearly determined at this time, software may be copyrightable *inter alia*, in Argentina, Brazil, and Venezuela.

Since software license agreements will be approved under the technology transfer laws for a term of from 5 to 10 years (after which the licensee will be deemed to be the owner of the software for all purposes, with no restrictions on such ownership), and since the software owner may also obtain local copyright or patent protection from a period of 10 to 20 years, a potential conflict exists between the technology transfer rules and the copyright or patent laws. For example, if copyright protection of a particular program is granted for a period of 20 years, the 20 year protection would be inconsistent with a deemed sale of the software program under the technology transfer laws after, for example, 5 years.

The theoretical issue raised by the potentially inconsistent terms of protection is whether the limited term of the technology transfer laws preempts the more extended terms under other statutory protection schemes such as patent and copyright laws. This problem is not unique to software, but could arise in the context of many different types of technolgoy license agreements.

In our experience, to date this preemption issue has always been avoided by renewing the term of the license agreement, thereby postponing any direct confrontation between the technology transfer laws and other statutory schemes of protection. If this issue is ever directly confronted in a Latin American jurisdiction, which legislation would prevail is not clear. Nevertheless, software owners should enter into license agreements aware of the potential preemption problem.

The technology transfer laws throughout Latin America create an additional obstacle for the licensing of software to Latin American users. As discussed above however, the adverse impact of the technology transfer laws may be avoided or minimized by creative and careful drafting. Furthermore, many of the technology transfer authorities have displayed a great deal of flexibility in modifying the application of the traditional rules with respect to software licenses. For these reasons, software owners need not necessarily shy away from Latin American markets merely because of the technology transfer rules.

FOOTNOTES

1. The Argentine government is currently examining an amendment to the Technology Transfer Law that would specifically bring software within the scope of that Law.

2. SEI Regulation No. 013/81 and INPI Regulation No. 053/81 dated February 12, 1981.

3. With respect to this requirement in particular, the focus is on agreements involving the license of manufacturing technology. In the context of a software license, it may be possible for the licensor to discharge this obligation by providing for training of the licensee's personnel in the installation and use of the software on the licensee's equipment for the licensee's particular purposes.