Transferring Know-How to LDCs

Legal problems and business considerations in transferring technology to developing countries

BY MICHAEL BURNSIDE*

One of the most contentious areas in technology transfer as between the developed and the developing world is the ownership of know-how communicated under a combined patent and know-how licensing agreement.

As a bare minimum, it has to be accepted that the secrecy of the communicated know-how must be respected until the end of the agreement concerned, but this is not the real problem. There is the vague feeling that know-how once communicated has been paid for and its use by the licensee cannot be stopped. In other words, once the patent license has run its full course, the licensee can continue to make further use of the know-how. Questions that arise may be as follows:

1. Can the licensee be stopped from further use of know-how?
2. Can the licensee not be stopped but must he continue to pay a royalty for the use of the know-how for a defined period of years?
3. Must the licensee maintain the secrecy of the communicated know-how?

Before discussing these possibilities, it must be realized that the situation may vary considerably between industries and even with different agreements in one industry. Thus, in some industries once the licensee has acquired the know-how, effectively it is no longer a secret and has become a matter of public knowledge while in other industries the know-how can be maintained in a secret state. For example, one may be able to look at a gear-box but this will not reveal the tolerances to which various parts must be cast. I am reliably informed that one large American company has licensed its technology for lubricant oil manufacture on the basis of secret know-how licensing for many years.

One point made by some developing countries is that foreign patentees deliberately do not describe in their patent specifications the necessary know-how to put the invention into practice. The answer to this criticism is a very simple one. When a patent application is filed, an invention has probably not been fully developed. It would be a most unusual situation if a patentee did not develop more know-how after the filing of a patent application and for legal reasons, this could certainly not be included in the specification of the patent as this would constitute the addition of new matter.

Some interesting guidance to the way in which a detailed study of this problem has led to a change in attitudes may be obtained from a study of the proposed Block Exemption Regulation for Patent License Agreements suggested by the Commission of the EEC. The first draft of this Regulation was proposed in 1977 and there were several further drafts between 1977 and 1979. There was then a period of four years when no progress was made. Another draft was produced late in November 1983 and yet another draft in March 1984.

Initially, the Commission proposed that, after the termination of a patent-com-know-how licensing agreement, the licensee could not be prevented from using any secret know-how but would have to pay for this know-how for a period of, say, three years. Indeed, in spite of considerable protests from interested circles something along these lines appeared in the Draft Regulation as late as November 1983.

However, this prohibition or restriction has now disappeared completely from the draft and the Commission has concluded that in the present state of its knowledge, it would be inappropriate for the members to make any such restriction. To quote from the Working document accompanying the draft in March 1984 (Docket IV/84/1):

> "Deletion of former paragraphs (10) and (12) (inapplicability of the group exemption in the case of restrictions on the use of know-how after expiry of the contract,—i.e. in the case of "renting" of the know-how for a limited period—and in territories other than that licensed and not covered by patent).
>
> The Commission considers that in general know-how agreements are, like patent licensing agreements, indispensable for economic and technical progress within the Community.
>
> As regards the obligations referred to above, it prefers not to prejudge the way in which they are to be evaluated in the context of this draft, which only covers know-how agreements to the extent to which they accompany licenses of patents in force."

The position in British law is covered by scant authority but I think that it is generally true to state that a licensee can be enjoined from using secret information once the term of his license has run its full course. There is one important British case which can be cited against this principle. *Regina Glass Fibre Ltd v. Werner Schuller,* which was decided in 1972. Regina commenced the manufacture and sale of glass fibre in the United Kingdom on the basis of patents and know-how which belonged to Schuller. The agreement was

*Michael Burnside & Partners, London, England; *reprinted from* NIR *magazine with permission; paper presented at the Swedish Patent and Trade Mark Centennial in Stockholm, organized by NIR and the Royal Swedish Patent and Registration office.*

dated in 1953 and on expiry of the agreement in 1968, Schuller said his licensee could not use confidential information and know-how communicated to them. The English Court of Appeal says:

"It seems to me that in many cases, as in this one, when confidential information for know-how is given so as to enable a business to be established, it is given for all time. When the agreement comes to an end, there is no right to acquire further information, but the recipient can go on using that which he has already received. He is not bound to close down the business which he has built up by using it."

There is nothing particularly important about English law in an international context. It is more significant to realize the change in attitude by the Commission of the EEC after many years' debate. We must recognize that is is a complicated problem and there is probably no good general answer as the significance of know-how varies from industry to industry. It has been said that over 90% of all patent licenses also involve know-how licensing.

In any event, some developing countries will have to accept the proposition that attempts to impose any radical view that effectively means that the licensor is considered to have made an outright sale of know-how may discourage many large companies from the developed world from doing business in their countries.

PATENT APPLICATIONS FILED AND GRANTED

Statistics are always capable of various interpretations—"there are lies, damned lies and statistics." The attached tables have been extracted from the excellent material provided by WIPO. As a general rule, even if there is a 100% success rate, there is usually a delay of several years between filing and grant. However, it may be possible to detect a trend by looking at the filings and grants in a two-year period. More significance should be attached to the break-down between filings by residents and nonresidents as the former give an indication of inventive activity in each country.

The figures for the Member Countries of the European Patent Organisation and the U.S.A. and Japan are set out separately and it is immediately apparent that in many developing countries the filing volume is very small. Think of the problems of running a full-scale examining Patent Office? Ten years ago, half of the Member Countries of the EPO did not carry out any real examination of patents. Can we expect in our lifetime that many of the developing countries will be in a position to do so? Does the Patent Cooperation Treaty really help? If one were thinking of international patent cooperation as a matter of first impression, it would seem that there is a real need for a centralized system of processing patent applications but as the PCT has developed, the emphasis has been to make it popular among the big users who already have their own fully operative patent system.

Some extracts from the monumental work entitled Patents, Trademarks and Related Rights by Stephen P. Ladas, Treasurer-General of the AIPPI for many years, published by Harvard University Press in 1975 are worth reading or re-reading. In Chapter 18, he discusses the Patent Cooperation Treaty and appraises its value. At one point he remarks:

"The value of the plan is primarily for the larger industrial countries maintaining Patent Offices with exceptional examinating facilities that will be appointed as International Searching Authorities. Psychologically, applicants from these countries are prepared to utilize the PCT. They can file in their own Patent Office an International Application to be processed under the Treaty. They can file this in their own language. They can receive an international search report from their own Patent Office. They can postpone the expense of filing foreign applications with translations and payments of national fees and also of fees for foreign patent agents, and they have more time for reflection — a de facto extension of the priority term from twelve to twenty months."

With respect to the developing countries he states:

"Even with respect to developing countries, the international examination report may not be of value to the applicant. Those countries do not have the technical personnel to appraise the report and this may be deceptive for them. Insofar as it may encourage filing in such countries it will mean a proliferation of patent monopolies. Inventors or applicants will not derive appreciable advantage because patenting in such countries is not useful unless the owner of the patent is otherwise encouraged to invest therein.

"Developing countries belong generally to the group of nonexamining countries or those with examination of local patents only. Their benefit from an international search report will be hardly conceivable. Even a preliminary examination report will not be of much use to such countries since they have no facilities with which to consider it and reach a conclusion as to patentability under their national law. These countries may consider Chapter IV of the Treaty on Technical Services and Assistance as providing useful advantages, but these are already available to them under WIPO and the Conference Organ of that organization."

It is commonplace that in the last few years large corporations have been increasingly concerned with financial economies and this concern has spread itself to their industrial property departments. Indeed, the European Patent Office has very much concentrated attention on the costs of obtaining patents in that its initial promotional effort was partially based on the fact that the use of the EPO saved the applicant money. My own general remark on the question of patenting in the developing countries is that the costs are in line with costs in the developed countries in that one may think that some are too expensive and some are cheap. In other words, there is the usual spread and there is no general attempt to raise money by charging exorbitant fees to foreign patentees. However, when companies are studying costs closely, they should more and more consider what value patent protection has in any particular country. There can be no general justification for spending money where there is no real possibility of any benefit. Thus, before deciding to start or continue a filing program in a developing country where the number of patent applications that are filed is small, an applicant should ask himself whether it is worthwhile. It may be that there is no real benefit to be obtained in the light of the fact that statistics show that very few companies obtain patents in many developing countries.

Fundamental Question

However, one may ask another fundamental question. Does it really matter in many cases if a patent is granted or not? If legal proceedings are never going to be started for patent infringement, the simple existence of a filed patent application may be significant. There are legal situations where the grant of a patent may make a difference, e.g. it may affect a permitted royalty rate level but have we become too conditioned to the idea that the grant of a patent is a *sine qua non* as a reason for filing. Thus, small numbers of patent applications have been filed for a number of years in Libya and Algeria and no patents have ever been granted in those two countries. Has this made any difference at all in technology transfer agreements with those countries?

Taking another side of this proposition, would it not be simpler in many countries for grant to be conditioned upon the grant of a patent in the applicant's own country and restrictions or other amendment of the claims to correspond to those of the home patent? The idea of simple rubber-stamping may seem odious and/or old-fashioned, but if the other possibilities are complete inaction or years of frustrating and pettifogging objections, which is the better solution?

Libya and Algeria have just been mentioned as instances of complete inactivity. Some samples of frustrating and pettifogging objections will now be given and necessarily these will have to be from personal professional experience so that some detail may have to be omitted. In Ecuador, my firm encountered a sudden spate of refusals on all applications we filed in one year with no real reasons being given and nothing has happened with the particular applications concerned for years. However, in years before and after this particular year we filed five or six applications and they were substantially all granted within a year or two of filing.

There was a change in law in Colombia at the end of 1970 and the Patent Office in that country suddenly started rejecting everything and sometimes for reasons which were obviously bad law. Appeals were taken through the various levels of the Colombian legal system and eventually to the Council of State, the highest Court of Appeal which concluded that the Patent Office was wrong in law and that the patents should be granted.

However, in spite of this order from the Council of State, the Patent Office refused to grant patents on the applications which were the subjects of successful appeals and this situation continued for a number of years and as a result, companies were discouraged from filing patent applications. In the last three or four years there appears to have been a change in heart and we are finding that applications we filed five or ten years ago are now being granted. It is difficult to escape the conclusion that the difficulties in obtaining patents in certain years were not "politically" inspired and to the extent

Selected Statistics on Patent Applications and Granted Patents.

COUNTRY	1980				1981			
	Applications		Patents		Applications		Patents	
	Res.	Non Res.	Res.	Non Res.	Res.	Non Res.	Res.	Non Res.
Algeria[2]	5	349			14	340		
Argentina	1269	3063	1590	2980	954	3321	820	2694
Australia[1]	6582	9354	620	7805	6341	9807	505	5929
Bangladesh	34	102	7	94	39	133	17	85
Bolivia	8	117	9	126	12	120	6	145
Brazil[1]	2149	6228	349	3494	2171	6113	844	9448
Bulgaria[1,2]	3297	804	1271	527	3673	871	1417	383
Canada	1785	23189	1503	22392	1951	23547	1369	21327
Chile	140	685	71	746	67	568	39	604
Colombia	43	335	12	391	39	604	4	202
Czechoslovakia[2]	7606	2036	6767	1853	8038	2019	5447	1560
Ecuakor	35	152	1	76	14	180	3	31
Egypt	76	731	10	317	59	738	8	249
El Salvador	12	79	5	50	17	107	—	—
Fiji	2	11	2	7	—	14	—	5
Germany (East)	6599	1891	4455	1371	7420	2177	5713	1734
Hong Kong	10	723	10	708	22	637	22	632
Hungary[1]	1601	1571	760	1018	2124	1528	764	840
India	1207	1817	349	1152	1067	1834	419	870
Indonesia	5	475				Not available		
Iran	169	493	35	366		Not available		
Iraq	19	126	14	24	26	107	13	45
Ireland	394	2355	24	1407	461	2649	25	1315
Korea (South)	1241	3829	186	1446	1319	3984	232	1576
Malawi[1]	2	51	2	34	7	41	2	32
Mali	—	7	—	—	1	7	—	—
Mauritius	—	10	1	12	2	19	—	8
Mexico[2]	704	4768	174	2378	765	5232	210	2615
Marocco	29	315	21	330	36	299	31	281
New Zealand	1148	2290	137	1122	1033	2424	199	1435
O.A.P.I.[1]	6	298	7	136	7	278	—	—
Pakistan	37	369	14	335		Not available		
Panama	15	90	9	29	8	90	2	22
Paraguay		Not Available			22	85	2	49
Peru	82	280	31	300	50	375	32	313
Philippines	119	1454	93	811	91	1514	69	718
Portugal	92	1731	95	2200	90	1843	48	1540
Poland	6198	1644	5736	1962	4370	1188	4693	1409
Romania[1]	2569	726	1194	814	2481	681	1228	1276
Rwanda	—	3	—	2	—	7	—	7
Samoa	—	2	—	1	2	—	—	—
Seychelles	—	3	—	3	—	7	—	7
Singapore	2	631	1	548		Not Available		
South Africa	3092	5024	5390		3340	5694	6055	
Soviet Union[1,2]	164852	3737	92897	1685	146228	3272	96537	1942

Selected Statistics on Patent Applications and Granted Patents.

COUNTRY	1980				1981			
	Applications		Patents		Applications		Patents	
	Res.	Non Res.	Res.	Non Res.	Res.	Non Res.	Res.	Non Res.
Spain	1876	9001	1485	7739	1718	8509	1115	6140
Sri Lanka[1]	11	67	13	607	6	102	19	58
Syria	6	98	—	—	7	26	—	—
Thailand	18	184	—	—	26	304	—	—
Tunisia	27	214	33	189	28	183	25	152
Turkey	134	527	32	452	157	368	26	254
Uruguay	70	213	41	236	71	227	21	158
Venezuela	236	1831	55	408	176	1980	58	755
Yugoslavia	1384	1974	77	578	1422	1734	94	741
Zaire	3	100	3	100	8	74	8	73
Zambia	2	113	—	66	1	107	—	68
Zimbabwe	39	281	24	194	35	274	5	274
AT Austria[1]	2327	4166	1227	4745	2390	3428	1120	4360
BE Belgium[1]	865	5104	837	5081	806	3918	788	3902
CH Switzerland[1]	4049	5613	1475	4486	3712	4430	1908	6381
DE W. Germany[1]	28683	19900	9826	10362	29841	16738	6537	6892
FR France[1]	11000	16989	8438	19622	10945	13723	6855	14622
GB Great Britain[1]	19612	22000	5158	18646	20808	18406	6076	16848
IT Italy	6369	9971	1810	6190	14843		6500	
LU Luxembourg[1]	97	897	73	1025	109	708	73	745
NL Netherlands[1]	1826	5532	417	2907	1897	4228	397	2661
SE Sweden[1]	4106	5086	1394	3604	3914	3968	1321	3561
EPO	11347	6158			13958	8474		
DK Denmark[1]	964	4605	192	1453	1085	4745	163	1276
FI Finland[1]	1356	2734	439	1467	1423	2809	491	1559
NO Norway[1]	716	3247	276	1843	714	3785	179	1668
JP Japan[1]	165730	25290	38032	8074	191621	24686	42080	8824
US United States[1]	62098	42231	37152	24675	62404	44009	39225	26545

[1] Ratified PCT
[2] Patent/Inventor's Certificates totalled together

There are no available statistics for:
Libya
No. Korea[1]
Sudan[1]
Taiwan

that the activities of a large international company in a country is influenced by its ability to obtain patents there was an effective deterrent.

Yugoslavia has caused us many problems in the last 10 years. There have been periods where several years passed without any Offical Actions having been issued on applications that were filed. There have been periods where constantly unfavorable Official Actions have been issued and recently there has been a change in law causing foreign applicants yet further expense and laying down strict conditions under which patents will be granted. This has simply discouraged my clients from filing patent applications in Yugoslavia. One has had a general impression of repeated pettifogging objections and, in times of budgetary constraints, the money is better used elsewhere.

India may be a very interesting country for a detailed study of the value of patents in a developing economy. There has been a very restrictive attitude on the part of the government to the transfer of funds abroad in respect of licensing agreements. It is a vast country with great potential, but in the years 1980 and 1981 less than 2,000 patent applications were filed there by foreigners each year. More were filed by foreigners in Ireland and New Zealand which are much smaller economies but do not discourage foreign business in the same way. Have companies simply voted with their feet and decided that the problems of doing business in India do not warrant the trouble involved?

Generally, if one looks at the statistics, it has to be realized that in view of the very small number of patents filed in many developing countries the problem is to encourage patent activity rather than discourage it. The unbiased observer may also query the practical value of exclusive compulsory licensing and the effect it might have in many developing countries. Applicants only file in some countries to express their practical interest in doing business in that country and they never expect to enforce their patents. The possibility of exclusive compulsory licensing will discourage rather than encourage filing and the value of the licenses in many cases will be problematical. It may cause a fundamental reappraisal by some companies of the value of their patents in many developing countries.