

Patent And Technology Licensing In Latin America

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In 2004-2005, the LESI Committee of the Americas and the LES (USA & Canada) International Committee conducted a survey of licensing activity in Latin America. Committee members, with experience in Latin American countries, researched available information to respond to a series of questions. In some countries, not much information was available to answer the questions; in others, information was available. Whenever possible, the Committee members supplemented the research with their personal experience, providing insight into the licensing landscape in the particular country.

The Committee gathered information on Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, and Venezuela, by asking the following questions:

1. What public and private organizations are licensing technology?
2. For each organization involved in licensing, for the past five years:
 - a. how many patent licenses and how many technology licenses; and
 - b. what are the significant terms and characteristics of licensing.
3. What organizations may be in the position to conduct licensing but are not yet doing so?
4. What are the greatest challenges and barriers to licensing—legal, business, and practical issues?
5. What possibilities are there for providing education to the licensing, legal, university, government, and business communities?

This article gathers together the information gleaned from the survey and presents the highlights from the responses to the questions posed. As will be seen, licensing

activity in Latin America ranges from significant licensing activity in Venezuela's oil industry and Mexico's manufacturing and franchising operations to scant activity in Argentina, Colombia, and Ecuador. Further, in some countries, much of the R&D and consequent licensing activity derive from government and university programs, with little licensing taking place strictly in the private sector. These government and university programs, however, seem to be bearing fruit, so licensing activity in these nations will perhaps increase during the next decade.

1. What public and private organizations are licensing technology?

In Latin America, the most active countries in licensing appear to be Venezuela and Mexico. Each of these countries has active private-sector licensing, though the public sector is engaged in much licensing activity as well.

In Venezuela, the oil industry dominates the licensing landscape. The leading organization in petroleum-related technology is the Instituto Técnico Venezolano del Petróleo (PDVSA-INTEVEP, S.A.). The most important research-and-development center of petroleum-related technology in Venezuela is INTEVEP, S.A., a company totally owned by Petróleos de Venezuela, S.A. (a state-owned company).

INTEVEP, S.A. has a patent portfolio of approximately 1,500 petroleum-related patents around the world and is certainly one of the most important research and development centers in South America. INTEVEP, S.A. has been producing and licensing technology since 1983. Other research and development

efforts in Venezuela are dispersed and isolated.

In Mexico, the private sector leads the licensing of technology. The Mexican response to the survey classified corporations as (1) Mexican Corporations in general, (2) Mexican Corporations with technology departments, and (3) Multinational Corporations.

1. Mexican Corporations in general usually license and buy technology through an engineering firm for specific projects; most licenses relate to franchising.
2. Mexican Corporations with technology departments usually do not license, but keep their knowledge in-house; also, they seldom finance developments in universities or institutes.
3. Multinational companies license in-house to their subsidiaries what they need to operate in the Mexican

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market, usually only as a formality, or register or make effective in Mexico international contracts with third parties.

Despite the prominence of Venezuela and Mexico in the field of licensing, developments in other Latin American countries are significant. In Chile, some government programs are encouraging the development of technology. In this country having a low rate of patenting—with more than 90% of Chilean patents being filed on behalf of foreign inventors—the situation is changing because of free-trade agreements. Chile is realizing that it must develop its science and technology infrastructure to become a developed country and has instituted aggressive programs geared toward developing technology and advancing science. In 2004 and 2005, the government, along with the World Bank, is sponsoring eight competitions. The first such competition, ChileInventa 2004 organized by GeneraUC Technology Commercialization, attracted 30 innovations representing diverse technologies from different parts of the country. Organizers of each competition are responsible for ensuring that the technology is patented and commercialized.

In Brazil, we find licensing in universities and government programs as well. These include:

1. University of Campinas – UNICAMP
2. University of São Paulo – USP
3. São Paulo State Research Foundation – FAPESP
4. Pharmaceutical Innovation Agency – AGIF

Licensing U.S. Technology

In many Latin American countries, much of the licensing involves U.S. technology. Frequently, U.S. companies license their own technology to their subsidiaries. In Colombia, for example, Colombian Patent Office statistics show that the vast majority of patent licensing (99%) is U.S. technology licensed to Colombian companies, often to branches or subsidiaries of the U.S. companies owning the technology. In the Pat-

ent Office, one finds registrations of 98 patent licenses. Others no doubt exist but have simply not been registered. The owners of this licensed technology include Kimberly Clark Worldwide, Inc., Eli Lilly & Company, Cabot Corporation, W.R. Grace & Co., and others.

U.S. technology, of course, is not the only subject matter for Latin American licenses. In Brazil, for example, many licenses involve European and Japanese technology.

Universities and Government Programs

Universities and government programs figure prominently in the encouragement of research and development and the licensing of developed technology. In Argentina, the University of Buenos Aires—the biggest and most important public university in Argentina—has the Office of Transfer of Technology. This office assists the different faculties in negotiating licenses of university, or faculty-owned technology. But not all faculties obtain patents for their innovations and when they do, negotiating a license agreement can be a very lengthy process since the provisions in most agreements used in private industry are usually objected to by the University. The faculties at some universities may enter into joint research agreements with the private sector. Quite a number of these joint projects have been successful. They, too, involve the transfer of technology.

2. For each organization involved in licensing, for the past five years:

- a. how many patent licenses and how many technology licenses; and
- b. what are the significant terms and characteristics of licensing.

Throughout Latin America, precise data on the number and value of technology licenses are sparse at best. Most countries do not require the registration of patent licenses. And in those that allow registration, few organizations submit registrations, preferring instead to keep this information confidential.

Registration does take place in some countries, however. In Brazil, for example, royalty-bearing technology transfer agreements executed between a Brazilian licensee and a foreign licensor should be filed at the Brazilian Patent and Trademark Office (BPTO) for recordal (registration). In addition, as a general rule, the recordal of license agreements (trademark, patent, know-how and technical assistance agreements) at the BPTO produces the following effects: (i) the agreement becomes enforceable before third parties; (ii) the royalty payments become remissible abroad; and (iii) the Brazilian party becomes eligible to claim the royalty payments as tax deductible items.

Argentina also has registrations of agreements between foreign licensors and local licensees involving payments abroad, in which parties wish to benefit from certain tax incentives. Concerning typical terms and conditions, the survey could provide only the economic value of those agreements, since all the remaining information is kept confidential. From 1992 to 2003, the National Institute of Industrial Property registered 3,285 agreements. Of those:

- 1741 were technical assistance.
- 59 were franchising agreements.
- 24 related to training.
- 938 were trademark or patent licenses.
- The remaining ones covered various areas such as engineering.

The registration of these agreements revealed the U.S. dollar amounts involved. By year, from 1992 to 2003, these amounts were as follows (millions of U.S. dollars):

- 1992 - US\$74.1
- 1993 - US\$99.9
- 1994 - US\$340.2
- 1995 - US\$571.80
- 1996 - US\$632.1
- 1997 - US\$598.1
- 1998 - US\$918.5
- 1999 - US\$1455.40

- 2000 - US\$1124.60
- 2001 - US\$765.40
- 2002 - US\$245.0
- 2003 - US\$396.0

Patent and technology licence information in Colombia uncovered by the survey is shown in Table 1.

Registration Information Sparse

Though registration information is sparse in Latin America, it is possible to deduce the extent of licensing by referring to some information that is publicly available.

In Mexico, for example, one can deduce the extent of licensing from information available on the extent of franchising, since the typical franchising agreement is often accompanied by technology or know-how licenses. There are about 550 franchisers in more than 65 areas with 35,000 sale points all over the country.

The terms of franchise licenses in Mexico are typical of those found worldwide: strong provisions to the franchisee for maintaining a certain level of quality and for achieving commercial and performance milestones. In addition, Article 65 of the Regulations of the Mexican Industrial Property Law outlines certain information that the franchiser must deliver to the franchisee. The key people involved in franchise licensing belong to the Mexican Franchising Association.

One can also deduce the extent of licensing from information available on Mexican manufacturing. According to the National Council of Exporting Manufacturing Industry, there are about 2800 active manufacturing facilities in Mexico. It is fair to say that for each manufacturing facility or company there is at least one license agreement involved in the manufacturing agreement when the technology is provided to the manufacturer for producing a determined product.

Further, in Brazil, the survey revealed that the number of licenses granted by Brazilian organizations is not high. UNICAMP, for example, has 322 patents but only 8 are licensed. USP has about 90 patents

| Table 1. | |
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| Patent Licenses | |
| Kimberly Clark Worldwide, Inc.: | 53 |
| Eli Lilly & Co.: | 30 |
| Cabot Corp.: | 7 |
| W.R. Grace & Co.: | 2 |
| Other Companies | 3 |
| Cabot Colombiana S.A.: | 2 |
| Ecopetrol: | 1 |
| Technology Licenses: | |
| Oil and gas exploration and exploitation: | 318 |
| Air transportation: spare parts: | 136 |
| Financial services: | 108 |
| Cement compounds exploration and exploitation: | 32 |
| Telecommunications: | 29 |
| Metallurgy: | 14 |
| Non-weaved products: | 7 |

on its records, but there are no data available on how many of these patents are licensed.

Aracruz Celulose S/A, a Brazilian corporation engaged in the manufacture of papermaking pulp fibers, currently licenses its know-how to Procter and Gamble Corporation in a joint research-and-development agreement. Aracruz is also negotiating a similar agreement with Kimberly-Clark Corporation.

Regarding the UNICAMP licenses in Brazil, they are mostly not exclusive and concern chemical products. There are no data concerning the licenses of the other organizations.

Terms of Agreement

The agreements in Mexico are usually signed as proposed by the technology owner and often include provisions more related to the features of the manufactured products such as quality or to the efficiency of the licensed technology such as process efficiency and the like. As for IP-related provisions, these contracts usually include direct assignment of improvements to the technology provider, a license to operate know-how and patents (even if they were

not registered in Mexico), and other provisions usually more beneficial to the technology provider.

In Venezuela, information about licenses comes from INTEVEP, S.A. The agreement drafted depends directly on the type of business involved. Almost all licenses are nonexclusive, with a few on an exclusive basis. INTEVEP's policy on this matter is not to enter into exclusive licenses unless the specific circumstances of the business so require.

INTEVEP is very careful in precisely defining in the license agreement the technology that is being licensed. Intent is strong in not compromising future research and/or future improvements through the license agreement. If necessary, INTEVEP will require new negotiations on royalties for such research and/or improvements.

Clauses dealing with royalty payments are precisely and clearly drafted. They set forth a royalty base, royalty percentage, and a procedure on how to calculate royalties. Additionally, they establish a detailed time schedule for payments.

License agreements in Venezuela are generally entered into for five years with options for renewal if the parties agree. Termination clauses are very specific about when the license agreement begins and ends. This clause also provides specifics about payment of royalties accrued after termination, the need for reports, and so on.

Venezuelan confidentiality obligations are set forth for periods of 10 to 15 years as of disclosure. These confidentiality obligations survive the agreement as long as it takes to end the extension agreed for confidentiality. Confidential information is defined from the material approach rather than from the specific approach and includes all nondisclosed information marked as confidential and disclosed in written and/or oral form as long as it is expressed in written form within 15 days after oral disclosure.

INTEVEP agreements vary on choice-of-law provisions. Almost three quarters of them allow foreign law to rule the agreement, the other quarter requiring the application of Venezuelan law. Almost all INTEVEP license agreements include an arbitration clause, but they vary on which institution will rule the arbitration procedure. There is no uniformity on this matter. They vary among AAA, UNCITRAL, and the ICC.

In Colombia, official information about the exact terms in licenses is not available. It is important to note, however, that agreements for importing technology must contain at least the following information:

1. Parties, their nationality and residence;
2. Methods used to transfer the imported technology;
3. Contract prices of each of the elements involved in the transfer; and
4. Effective term of the agreement.

On the other hand, the agreements may not contain the following:

1. Clauses by virtue of which the

supply of technology bears with it the obligation of the recipient country or enterprise to acquire, from a given source, capital equipment, intermediate products, raw materials, or other technologies, or to use, on a permanent basis, personnel indicated by the enterprise supplying the technology;

2. Clauses by virtue of which the enterprise selling the technology reserves the right to fix sale or resale prices for the products that are manufactured using that technology;

3. Clauses that contain restrictions on the volume and structure of production;

4. Clauses that prohibit use of competing technologies;

5. Clauses that establish a total or partial purchase option in favor of the technology supplier;

6. Clauses that compel the technology buyer to transfer to the supplier all such inventions or improvements as may be obtained through use of that technology;

7. Clauses that require the payment of royalties to the holders for patents or trademarks that are not used or have expired; and

8. Other clauses having an equivalent effect.

Likewise, as a general rule, clauses prohibiting or limiting in any way the export of the products manufactured using the respective technology are not accepted.

In Brazil, the agreements submitted to the BPTO for recordal purposes must comply with several written and nonwritten rules regarding: (i) confidentiality obligations, (ii) royalty rates, (iii) limited terms for know-how and service agreements, (iv) and impossibility of payment for trademarks and patents pending.

Finally, in Ecuador, the Ecuadorian Institute of Intellectual Property is charged with determining the number of licenses of patents granted—in the past five years, there have been approximately fifty. Significant terms and characteristics of licensing technology focus on the qualifications of the licensee.

3. What organizations may be in the position to conduct licensing but are not yet doing so?

In many countries, there seems to be licensing opportunity in the universities. In Chile, for example, at least 20 universities, represented in the Consejo de Rectores, could be in a position to license the results of their government-funded research projects.

In Venezuela, the Universidad Simón Bolívar (USB) was created in 1967. USB has been encouraging innovation, research, and development of technology. It is leading the “innovation network,” consisting of a network of approximately six “Parques tecnológicos” with limited infrastructure and also limited budgets to work with. Two important institutions for technology licensing depend on the USB.

1. “Parque Tecnológico Sartenejas” (PTS): This institution was created in 1992 with the support of National Council of Scientific and Technological Research (CONICIT) and Foundation for Research and Development (FUNINDES-USB). PTS depends on the “Simón Bolívar University,” and its objective is to develop technological resources of the country.

2. Fundación Instituto de Ingeniería: This institution was created in 1999 by the Venezuelan Government. Its objective is to manage research activities, technological development, technical consultancy, and services related to Engineering and other related disciplines and to support national and international industries.

Universities, however, often have large and cumbersome bureaucracies, which do not provide quick, flexible systems to obtain approval of licensing agreements.

Some organizations may be in the position to conduct licensing but are still not doing so. In Ecuador, for example, one finds ECUACIENCIAS and the Ecuadorian scientific community. These are small organizations, which are slowly growing according to their resources. They

are not yet licensing technology because they lack economic support. As explained by the general director of the technical and scientific department of FUNDACYT, this is a very important issue and explains their gradual and slow growth.

4. What are the greatest challenges and barriers to licensing—legal, business, and practical issues?

According to committee members conducting the survey, the chief barriers to licensing are cultural and political.

In the business culture of some countries, for example, the idea that technology may be valuable by itself is novel. In this sense, for a long time companies have used their technologies only to improve their own production process. But now the number of inventors that look for prospective licensees and companies that license their technology has been increasing significantly.

Political policies also hinder the licensing of technology. In Brazil, the BPTO has protectionist policies and a “philosophy” that Brazil should not import technology but produce it locally. Recently, however, the “Innovation Law,” passed in 2004, has created important mechanisms to provide incentives for innovation and scientific and technological research with the objective of reaching a “technological independency” or autonomy in the development of Brazil as established in its Federal Constitution of 1988.

But other obstacles remain:

- The stage of development of innovations emerging from university research is not sufficiently advanced for near-term use by industry, in part due to a tendency to focus on basic rather than applied research.
- Universities lack—or are newly creating—the policies, researcher incentives, and organizational structures to support patenting and licensing.
- Countries lack and need to develop the strong links between universities and industry that would create demand for research and its commercialization.

- The business sector is slow to adopt innovative technologies and typically looks to more developed markets for sources of innovation.

- There is a lack of public or private financing for the stage of production ramp-up (i.e. demonstration plants, pilot lines) for technology-based products.

- There is a general lack of expertise and experience among government, universities, and industry with respect to the management of technology, technology-based businesses, patenting, and licensing.

- The most relevant business issue concerns the effect of taxation, which may make licensing a very costly endeavor.

- A clear public policy should be established to enable an effective transfer in which the State must not only look for development and an increase of the existing technology in the country, but also incentive domestic innovation demand.

In Mexico, there are practically no legal barriers to licensing. The country has a suitable IP system for protecting technology, and contract provisions are left to the will of the parties.

It must be stressed, however, that if the practicing of the technology in Mexico produces a monopolistic situation, then this monopolistic situation will be either controlled or avoided through the application of the antitrust provisions contained in the Federal Law on Economic Competition, which is quite similar to the antitrust laws of other industrialized countries.

Some hurdles in Mexico include:

1. Mexican technology developers are not interested in applied science, and if they are, they do not use the IP system to duly appropriate its knowledge.
2. Mexican business entities are not interested in licensing or in funding R&D for obtaining technology useful for its businesses and prefer buying technology from abroad through indirect “licensing in” (manufacturing contracts or engineering projects).
3. When drafting license agree-

ments, licensors and licensees seldom take into account the antitrust provisions that might affect the practicing of the licensed technology when entering into the market in Mexico.

In Venezuela, the greatest challenges and barriers to licensing are:

1. To promote research & development activities different from the oil industry.

2. To coordinate government, universities, and companies efforts to innovate & commercialize new technologies.

3. The Andean Community has a very restrictive regulation about transference of technology.

4. Venezuela is not a technology-producer country. Venezuela is more a technology-consumer country.

5. The oil industry has been an isolated effort on licensing because the oil industry handles a very high amount of economic resources. Other sectors of Venezuelan economy do not have enough money to cover the costs involved in licensing.

5. What possibilities are there for providing education to the licensing, legal, university, government, and business communities?

Committee members from most countries indicated an overall receptiveness to training opportunities. Most report that LES-sponsored seminars should focus on a particular sector—governmental, industrial, or educational.

In some countries, seminars have already been planned. In Chile, for example, licensing is a central theme in the following seminars:

- International Seminar of Intellectual Property and Technology Transfer, an annual event organized by NEOS of law firm Harnecker.
- InnovationEngine, the first international seminar for intellectual property, technology licensing and commercialization organized by GeneraUC Technology Commercialization of Pontificia Universidad Católica de Chile.

Both events draw a diverse nation-

al audience, and these institutions have organized previous seminars featuring international experts, many of them with links to LES or AUTM. Such international expertise is very welcome in Chile.

In addition to these two seminars, it is likely that additional ones financed by CONICYT through its Bicentennial Program for Science and Technology will include the topics of patenting and licensing, providing additional opportunities for the participation of LES speakers.

The new Chilean Licensing Association, being formed under the guidance of LESI, will begin operation in 2005. Its plans include meetings for members and participation in key technology-transfer seminars.

In Colombia, technology transfer has become a "hot" issue since the AFTA (Andean Free Trade Agreement) negotiations began. Therefore, most communities would welcome education from LES regarding licensing.

In Mexico, the facilities and educational structure are suitable to provide education in licensing to all the relevant sectors for licensing, even to the antitrust commission, which is the government organ in charge of the handling of the Federal Law on Economic Competition. There are enough materials and skilled persons in LES Mexico to provide suitable educational programs. In fact, however, several efforts in providing "technology management units" in chambers, universities, and institutes have consistently failed due to lack of interest.

In Venezuela, technology licensing is not a common practice. Therefore, the opportunities to provide education are endless. There are two programs on Intellectual Property, one in the "Universidad de los Andes" (ULA), and one in the "Universidad Metropolitana" (UNIMET). Neither covers the area of technology-licensing in depth. One good effort could be directed to improve these two

Universities' IP programs to raise the level of education in this area.

Conclusion

As globalization continues unabated, licensing activity in Latin America will undoubtedly increase. Businesses and public research organizations will increasingly turn to patent protection for inventions. And once the culture of Latin America changes and becomes more aware of the fruits of intellectual property, companies, individual inventors, and public organizations will realize that licensing provides an additional stream of income that has gone unrecognized in the past. The culture will change as more and more educational opportunities are provided, and we expect the Licensing Executives Society and its members will continue to provide education and other opportunities to advance the licensing of intellectual property in Latin America.