

Chapter 3

The Role of Intellectual Property in Development and WIPO's Development Cooperation Program

Objectives of Developing Countries

Industrial Property and Development

**Industrial Property Protection and Development
Inventions, Technology and Development**

The Promotion of Innovation

Introduction

A Global Approach to Establishing Innovation and Invention

Support Structures or Services

Implementing and Managing Innovation and Invention Support

Structures and Services

Innovation Center or Innovation Support Network

Licensing and the Transfer of Technology

Introduction

The Commercial Transfer and Acquisition of Technology

Negotiation of Licensing Agreements

Remuneration

Types of Intellectual Property Licenses

Government Control of Licensing Agreements

Copyright and Development

The Development Cooperation Program of WIPO

Introduction

Objectives

Development Cooperation in Relation to Intellectual Property

The WIPO Worldwide Academy

Objectives of Developing Countries

3.1 The general long-term objective of developing countries remains the establishment of a sound development base. This includes progress towards agricultural self-sufficiency and the stimulation of commercial and industrial activity. Industrial policies continue to emphasize the establishment of small-, medium- and large-scale industries in priority sectors, and commercial policies to promote a better balance of exports between raw materials, which tend to predominate, and finished, manufactured products as well as services. At the same time there is a continuing drive to obtain maximum economic benefits for developing countries from their enormous resources in indigenous creation, arising from traditional knowledge and indigenous arts, creative crafts and folklore.

3.2 The aim of developing countries to adopt policies on science and technology that facilitate their acquisition and use on appropriate terms remains present and important, as do the efforts to improve infrastructures, whether legislative or administrative, and to develop the human resources which operate intellectual property systems.

3.3 Recently, however, there has been an evolution of the conditions in which these development aims are pursued. The numerous challenges of the new century call for new approaches. One such challenge is in information technology, notably in the worldwide spread of the use of the Internet, and all the issues it raises in copyright and related rights, as well as in fair practice in industrial property, most urgently in the use made of domain names. Another challenge is in the field of biotechnology, which has seen momentous breakthroughs in genetic engineering, giving rise to questions that are not only biological and technical, but also human and ethical. The use of traditional knowledge and genetic resources is also evolving in ways that particularly affect developing countries: it should bring rewards to the societies that produce it as well as to the users.

3.4 Intellectual property in itself has always been an integral part of general economic, social and cultural development worldwide, but these new challenges emphasize all the more how globally interlinked national and regional intellectual property systems have become. Fresh approaches to meet the challenges have become correspondingly global, with concerted action at the national, regional and international levels to enable developing countries to participate in and benefit from technological advances.

3.5 The framework of international legislative and administrative assistance to developing countries has been strengthened by the Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS") administered by the World Trade Organization (WTO) in cooperation with WIPO. Developing countries which are member States of WTO were given different periods of time to adapt their intellectual property systems before being obliged to apply the TRIPS Agreement. The last to be so obliged will be the least developed countries (LDCs) which have until January 1, 2006 (see chapter 5, The Agreement on Trade-Related Aspects of Intellectual Property Rights ("TRIPS") and WIPO-WTO Cooperation): WIPO's program of assistance and support to the LDCs in particular has been intensified to help them meet this deadline, but other developing countries continue also to be so assisted.

3.6 In keeping with the more integrated approach to intellectual property as a key feature permeating society, WIPO has broadened its contacts and partnerships with all levels of society. WIPO now maintains constant and increasing contact not only with policymakers at the governmental level in the ministries immediately concerned, and with national intellectual property

offices, but also with other interested ministries, with non-governmental organizations concerned, with business communities at different stages of development, with the creators of intellectual property, with civil society interest groups involved in such questions as farming, public health and preservation of the environment, as well as with the general public to promote awareness of the wider issues and interests involved.

Industrial Property and Development

Industrial Property Protection and Development

Introduction

3.7 Industrial property has long been recognized and used by industrialized countries, and is being used by an ever increasing number of developing countries, as an important tool of technological and economic development. Many developing countries are aware that it is in their best interest to establish national industrial property systems where they do not exist, and to strengthen and upgrade existing systems which, inherited from their historical past, are no longer adequately responding to new needs and priorities.

3.8 Countries have laws to protect industrial property for two main reasons, related to each other. One is to give statutory expression to the moral and economic rights of creators in their creations, and the other is to promote, as a deliberate act of government policy, creativity and the dissemination and application of its results, and to encourage fair trading: this contributes to economic and social development.

3.9 Industrial property rights make it possible for the creators of innovations (goods, processes, apparatus, etc.) to establish themselves more readily, to penetrate new markets with a minimum of risk, and to amortize the investments made in the research that led to the innovations in the first place. In a practical sense, these innovations become the spearhead of some of the most advanced technology. This is becoming more and more apparent in a modern world increasingly dominated by technology.

3.10 For example, the right to obtain a patent for an invention encourages the investment of money and effort in research and development; the grant of a patent encourages investment in the industrial application of the invention.

Awareness of the Industrial Property System

3.11 No industrial property system, however well its basic laws are drafted and however efficiently they are implemented, can make an effective contribution to economic and technological development unless the system is known to, and used by, those for whose benefit it was established. An industrial property system is established to serve the needs of traders, manufacturers, industrialists, researchers, businessmen and consumers. The list of potential users and beneficiaries is inexhaustible, and the benefits to be derived from an effective use of industrial property cut across sectoral lines within an economy.

3.12 An essential task is to promote, among owners and users, as well as among potential owners and users, of industrial property, within the government and in the private sector, awareness of the nature of industrial property, and of how its main components can be developed

and successfully exploited in commerce and industry to enable the industrial property system to serve better the national interest and national goals of development.

Patents and Patent Information

3.13 An equitable and modernized patent system, by providing recognition and material benefits to the inventor, constitutes an incentive for inventiveness and innovative activity. It also creates a favorable climate for the transfer of technology by means of the security it provides for the patentee.

3.14 Patent laws require that an application for a patent for invention describe the invention with such clarity and completeness of all the technical details that anyone having ordinary skill in the art should, by merely reading the description, be able to carry out the invention, and that granted patents for invention be published. In other words, at the latest when the patent for invention is granted, the invention will be "disclosed," that is, its essence and mode of exploitation will be brought to the knowledge of anyone who wishes to know.

3.15 The utilization of information available through this disclosure avoids wasteful duplication of effort and the multiplication of costs that research aimed at finding solutions to technical problems can entail; it acts as an inspiration or catalyst for further inventions, and this contributes to the advance of science and technology.

3.16 A state of the art search through patent documents will usually identify those solutions to a technical problem that have been proposed in the past. Patent literature will often discuss disadvantages and difficulties that can be avoided by using a particular process or design or will discuss advantages or benefits of a particular process or design.

3.17 These advantages that may be derived from the information aspect of the patent system can be gained if such use is adequately incorporated in the administrative infrastructure of the countries concerned. In this respect it is essential that the patent system, and the patent information aspect of it, be adequately understood and accepted as a necessary component of the development efforts of the government. The awareness of the usefulness of the patent system for technological development purposes and the existence of an adequate industrial property system providing patent information services are essential elements. Equally essential is the need to coordinate the said system and its patent information services with other branches of the government administration related to aspects of technology transfer and technological development.

3.18 In this connection, it is necessary that the development objectives of the country concerned be reflected in the patent system of that country. In particular, the administration entrusted with patent matters must have the required capabilities and the mandate for undertaking and achieving the tasks and results provided for in the patent legislation. It may be mentioned that in many instances the inadequate utilization of the patent system in developing countries is merely a consequence of the lack of appropriate cooperation between the patent administration and the other relevant governmental bodies. The existence of appropriate links with the various related sectors could ensure the effective contribution of the patent system (patent laws and patent administration) to the development process.

Utility Models

3.19 One of the main advantages of a patent system is the encouragement of indigenous inventiveness and the stimulation of creativity among the peoples of the country. Such

encouragement and stimulation could result in a large number of inventive products some of which might not, however, meet all the requirements for patentable inventions. Creativity of this kind nevertheless deserves reward and should be encouraged. The protection of utility models serves this purpose by providing for a type of industrial property with less stringent requirements and a relatively short duration in comparison with a patent.

Industrial Designs

3.20 Many developing countries are extremely rich in traditional art and folklore which stimulates creations of local craftsmanship. These creations usually fall within the ambit of the term "industrial designs." By providing recognition and material benefits for the creator of an industrial design, an effective system of protection stimulates creative activity.

Trademarks

3.21 A well-selected trademark is an asset (in some cases, the most important asset) of substantial economic importance to an enterprise because it enables that enterprise to establish a market position, and goodwill in the marketplace, based on the trademark. Thus the effective protection of trademarks is an important aspect of commercial activity in any given country.

3.22 The growth, indeed the very survival, of any company, depends essentially on their ability to progress, not only in the national context but also internationally. As a result of the ever-growing pace of technological development, competitors are constantly launching new products and/or processes on a market which is in a perpetual state of change, improvement and renewal. Any company unwilling to compete in the modern marketplace is therefore bound to become vulnerable to challenges from national or international competitors in what it might have once thought was its own backyard.

Inventions, Technology and Development

3.23 Inventiveness and creativity are features which have favored the differentiation of mankind in the course of evolution from all other living species. The capacity to put these features to productive use continues to be of fundamental importance within the social and economic structures of human society. Indeed, the survival of any enterprise, organization, or even nation, may be said to depend essentially on its capacity to keep pace with development and progress.

3.24 One of the most widely used measures of economic progress (whether for a country or for an individual enterprise) is productivity, i.e. output per unit of input.

3.25 The principal significance of improved productivity is, of course, that it facilitates economic growth. If less inputs are required to produce the same amount of output, the resources which are liberated by the use of a more efficient process may be put to other productive uses, thus allowing overall expansion of output and economic growth to occur.

3.26 One of the important elements in the sound management of a science and technology policy based, *inter alia*, on encouraging invention and innovation is, undoubtedly, the patent system. An efficient patent system contributes to the stimulation of innovation in three main ways.

3.27 First, the existence of the patent system, with the possibility of obtaining the exclusive right to work an invention for a limited period of time, constitutes an important incentive to inventive and innovative activity.

3.28 Second, the limited period of time during which the holder of a patent is entitled to prevent others from using his invention creates an environment which facilitates the efficient development and utilization of patented inventions. It protects the inventor against uncontrolled competition from those who have not taken the initial financial risk. It thus creates conditions in which risk capital can be safely advanced for the transformation of an invention into an innovation. The inventor will be at ease to further develop the invention into a final, commercially polished, product or process that could be marketed and produce a benefit.

3.29 Third, the patent system provides the framework for the collection, classification and dissemination of the richest store of technological information existing in the world today. In other words it contributes to the dissemination of new knowledge since the right of the inventor to prevent others from using his invention for a limited period is not granted freely. In return for the grant of a patent, the inventor must disclose the details of his invention to society. Thus the information contained in a patent is available for research and experimental purposes (although not, of course, for commercial use) by all during the term of the patent grant. On the expiration of the patent term the information falls into the public domain and is freely available for full commercial use by all. The patent system thereby contributes to the evolution of the technological base of industry.

Government Support for Inventive Activity

3.30 The responsibilities of governments towards their inventors do not end with laws and treaties securing substantive protection of inventions. Their administration must be effective and not over-expensive, in order to avoid unnecessary obstacles between an inventor and his legal rights.

3.31 Certain countries have established special systems or structures to assist individual inventors, small enterprises and non-profit-making organizations in obtaining protection for their inventions and their effective management (for example, the payment of the various kinds of fee, free consultancy services, etc.).

3.32 Some provisions contained in financial or tax laws creating favorable conditions for inventors and inventive activity could be summarized as follows:

- reduced taxes in respect of income stemming from licensed patents and know-how;
- reduced fees for acquisition and maintenance of industrial property rights by individual inventors;
- special loans or subsidies, including interest-free or low interest loans;
- grants for development of certain inventions and innovations;
- possibilities for concluding governmentally or publicly financed "research contracts."

3.33 In an increasing number of countries, specialized governmental institutions have been created to encourage inventive activity and also to promote the development, exploitation and to

some extent the commercialization of local inventions, by providing the inventor with the relevant support.

3.34 For instance, in some countries individual inventors may get assistance and their inventions may be tested in government-owned or government-financed research and test laboratories and institutions. Usually it is done on a non-profit-making basis and in some cases repayment of the expenses is required if the invention has been successful on the market.

Rewards and Recognition for Inventors

3.35 An important means of action by governments for promoting inventive activity is the direct encouragement of inventors by public recognition. Non-material rewards (medals, diplomas) and sometimes financial rewards are granted not only to meritorious inventors, but also to potential inventors in the framework of youth science and invention contests. In some countries such moral awards and celebrations have been established by governmental acts. Another important support to inventors are exhibitions of inventions in that they highlight the inventions and facilitate the establishment of contacts with industry. In several countries, government agencies — including in some cases the industrial property administrations — organize or participate in the organization of such promotion activities.

3.36 Education is an important factor in that process. In many countries the promotion and encouragement of inventive activity among young people enjoys increasing attention. With a view to creating better opportunities for development of those talents as early as possible, several countries organize special exhibitions and contests for inventions made by schoolchildren, students and young people.

Cooperation Among Inventors

3.37 However important government support to inventors may be, it is necessary for the inventors themselves to realize better that they need to act collectively. They will be better heard, and their wishes will be better satisfied, if they form associations, if they are active in those associations and if their associations maintain closer relations with each other on the regional or international level.

3.38 At the international level the cooperation between organizations of inventors is either bilateral or in the framework of international organizations of inventors. Examples of international organizations of inventors are the International Federation of Inventors' Associations (IFIA), a global organization, and the African Federation of Inventors' Associations (AFIA), a regional organization.

The Promotion of Innovation

Introduction

3.39 At the beginning of our new millennium, worldwide economic development, with the creation of employment, economic growth and the reinforcement of the industrial network, cannot be realized without innovation at all levels. At the governmental level, innovation means effective policies to attract foreign investment, to promote applied worked-oriented research, to create an

innovation and entrepreneurial culture, to facilitate the integration of new technologies and to support small- and medium-sized enterprises (SMEs) and other creators in their efforts to innovate.

3.40 In fact, innovation is one of the key factors of the creation of new industries and the revitalization of existing ones, in both developed and developing countries. A recent study found that 20% of existing international trade relies on new patents. In a globalizing economy, the competitiveness of industries can only be maintained by continuous innovation.

3.41 It is not only large, multinational bodies and the results of national or international research and development programs that produce innovation or innovative products; SMEs and private research activities not only contribute, but should become a major force behind the innovations which promote economic growth. With the increasing complexity of market relations in the globalization of international trade and commerce, support structures and services to facilitate the transfer of technology or knowledge from creators to industry are of increasing importance.

3.42 The progress from an idea or initial research, to a marketable product or innovation is often difficult, long and costly. Unfortunately, in many cases, inventions and innovations are considered high-risk investment and do not obtain financial support easily. Consequently, the necessary funding to develop innovation or inventions into marketable products is rare and naturally more problematic in developing countries.

A Global Approach to Establishing Innovation and Invention Support Structures or Services

3.43 Innovation is often influenced by the environment in which innovators work. Factors that generate a favorable overall environment for inventions and innovation are:

- the state of science and technology;
- the legal, fiscal and general financial systems;
- the scientific and entrepreneurial culture;
- the technological and manufacturing infrastructure;
- human resources and their level of knowledge and education.

3.44 Specific factors that influence innovation are the relationships between universities, financial institutions, governmental offices and industry networks among others. Furthermore, the administrative and financial regulations governing the creation of new companies play an important role.

3.45 Since these factors can be influenced by national policies, the establishment of support services or a structure for invention and innovation should be considered as a governmental priority. Also, national innovation support structures and programs for services should be seen as a unified whole, with the main objective of increasing the capacity of society to generate inventions and innovations, including the transfer of technology, both nationally and internationally.

3.46 Technology transfer does not only consist of the transfer of intellectual property rights: the signing of license agreements, payment of royalties and transfer of intellectual property are only a

part of it. Unpatented know-how, ideas and suggestions often constitute information of considerable use, however difficult to evaluate, and furthermore other factors, such as conferences, meetings, and even personal relationships among technologists, make an important contribution. The promotion of a combination of all these modes of transfer assists all forms of creativity.

3.47 However, an evaluation of the prevailing environmental factors influencing innovation in a given country will be the first step to take to determine the innovation and invention structures and services that can be implemented there to increase its competitiveness in local, regional and international markets.

Implementing and Managing Innovation and Invention Support Structures and Services

3.48 Promoting innovation is a national policy objective, which can be attained only if all the economic players of a country participate in such a policy. Therefore, innovation support structures should be considered a public service for innovative minds, entrepreneurs and SMEs, as are other public services on offer, for example, health care or education. This public service should give incentives to and reinforce inventors, innovators and SMEs investing their ideas and transforming them into products, processes and technologies, which ultimately benefit society as a whole.

3.49 Innovation and invention support structures and services have to develop their own type of management, with planning and policies depending on the circumstances prevailing in each country. However, generally speaking, managing an innovation support structure needs the creation of an efficient and autonomous organism approved by the national authority.

3.50 It could be an organization, whose operations should be accountable to public authorities (for example, a board of governors or an executive committee, composed of representatives of all stakeholders), with the flexibility and adaptation capacity of an independent organism. It would be an organization for the development of new techniques and products and the valorization of intellectual property rights.

3.51 This organism would have the mission of advising the national authorities on the global environmental factors and the changes needed to set up innovation support structures, and notably innovation centers able to bridge the gap between creators and the market. The persons involved would have to prepare a technology development action plan based on evaluation of the weaknesses and strengths of the local realities, and considering funding to support the development phase, which could in some cases last several years.

3.52 This plan would have to be approved by all parties concerned. The first members of the organization should be drawn from the local authorities and interested private business, and could later be assigned to monitoring and providing budgetary and general oversight control of the program. WIPO and/or other international partners could provide advisory assistance.

Innovation Center or Innovation Support Network

3.53 An important element of these innovation structures is an organism — or a network of entities — which acts as the missing link on the one side, between researchers, individual inventors, research centers and universities and, on the other side, SMEs, investors, industries and those who

finally will bring the new products or services to the market. The organism can be called an "innovation center": its mission would be to assist individual inventors (including university researchers), SMEs, other creators and businesses to bring innovatory projects to completion. The offer of services of the innovation center should facilitate the development of their inventive and innovative ideas and assist them in commercializing or other dissemination on the market.

3.54 To realize that mission, the innovation center should offer certain major functions, in addition to administrative services. These functions, which can be performed either with in-house staff, a specialist network or through a cooperative structure (which last could be an attractive option in developing countries), are to provide:

- an information and promotion program to answer questions from inventors, researchers, entrepreneurs or anyone seeking adequate information on the necessary steps that have to be taken to realize innovation or invention projects, and notably on managing intellectual property rights;
- an evaluation program, including initial screening of submitted ideas or inventions to determine acceptability for evaluation. The center should be able to do preliminary evaluation, which provides expert opinions on the strengths and the weaknesses of an invention regarding its novelty, technical feasibility and market potential;
- a business assistance program to take the chosen projects through all stages of their development, including the market study, the technical research and development and prototypes, the intellectual property management and the filing of applications for protection of rights, the enterprise creation, the commercialization and decision-making, support to negotiate a licensing agreement with a third party, the preparation of the business plan, counselling to SMEs on the pre-production process, and help to individual creators to find industrial or other partners to commercialize their invention or innovation;
- prototyping services, which could produce operational models for demonstration purposes or organize pilot (test) production;
- a seminar and workshop program to generate knowledge in the community, in cooperation with experts such as patent attorneys and intellectual property public relations officers, on the evaluation and assessment of innovation and on the management of intellectual property rights;
- a brokering program of activities designed to acquire financial support for the development and the commercialization of selected projects supported by the Center;
- assistance in creating smaller offshoots (spin-offs) of large organizations or companies, particularly in countries where the industrial structure does not always have the capacity to integrate innovations with a high content of knowledge, research and development.

3.55 In some cases intellectual property offices and private experts in this field tend to see themselves as intermediaries, as examiners and attorneys only. They do not always realize their potential as a major influence in the global economic context, in which they can promote a national strategy to protect and valorize knowledge, inventions and innovation.

3.56 WIPO has established an online reference service that provides information on the activities of and services offered by innovation centers worldwide. The site <http://www.wipo.int/icdir> may be consulted.

Licensing and the Transfer of Technology

Introduction

3.57 One means for accomplishing economic development through the transfer of technology is the commercial transfer and acquisition of technology. Of course, technology can also be transferred and acquired by other than commercial methods. Personnel can be educated or trained at research and development institutions, technical institutes or centers of higher learning. Such personnel can in turn study books, periodicals or other publications on special scientific and technical subjects, or read patent documents, and in that way acquire knowledge of specific technology. But these methods will inevitably fall short of enabling those personnel or others to apply that knowledge, especially the inventions described in patent documents, to manufacture products, produce goods or render services.

3.58 This is true for two reasons. First, the exclusive rights to work an invention belong to the owner of that invention. Without the authorization of the owner, others should not put into practice the patented invention. Second, as has been mentioned, not all the knowledge — the know-how — which facilitates or is otherwise useful for the working of the invention is set forth in the description of the invention that is found in the patent document. Hence, it becomes necessary to buy those rights, or to buy the permission to use the invention, or to buy the know-how that enables the invention to be put into practice in the most efficient way.

The Commercial Transfer and Acquisition of Technology

In General

3.59 The sale and purchase of the exclusive rights to a patented invention or of the permission to use the invention or of the know-how, takes place through legal relationships between the owner of the exclusive rights or the supplier of the know-how, called the transferor — and the person or legal entity which acquires those rights or that permission or receives that know-how, called the “transferee.”

3.60 Those legal relationships are essentially contractual in nature, which means that the transferor of the technology consents to transfer and the transferee consents to acquire the rights, the permission or the know-how in question.

3.61 There are three principal legal methods that can be used to bring about a commercial transfer and acquisition of technology.

The Sale: Assignment

3.62 The first legal method is the sale by the owner of all his or its exclusive rights in a patented invention and the purchase of those rights by another person or legal entity.

3.63 When all the exclusive rights to a patented invention are transferred, without any restriction in time or other condition, by the owner of the patented invention to another person or legal entity, it is said that an “assignment” of such rights has taken place. That concept of assignment is

recognized in the laws of many countries. It applies also to the exclusive rights in utility models, industrial designs and trademarks, as well as other objects of industrial property. For the sake of simplicity, however, the further explanation of this legal concept will be confined to the principles and characteristics of the assignment of the patented invention. Similar principles and characteristics apply to the assignment of other industrial property subject matter.

3.64 The legal act whereby the owner of the patented invention transfers those rights to another is evidenced by a writing in the form of a legal document generally referred to as an "instrument of assignment of patent rights" or "assignment of patent rights" or, more simply yet, as an "assignment." The transferor is called the "assignor" and the other person or entity, the transferee, is called the "assignee." When an assignment takes place, the "assignor" no longer has any rights in the patented invention. The "assignee" becomes the new owner of the patented invention and is entitled to exercise all the exclusive rights in the patented invention.

The License Contract

3.65 The second legal method is through a license, that is, the permission by the owner of a patented invention to another person or legal entity to perform, in the country and for the duration of the patent rights, one or more of the acts which are covered by the exclusive rights to the patented invention in that country. When that permission is given, a "license" has been granted. It may be recalled that those acts are the making or using of a product that includes the invention, the making of products by a process that includes the invention, or the use of the process that includes the invention. The concept of "license" is also recognized in the laws of many countries. It applies also to the exclusive rights in other objects of industrial property. Again, for the sake of simplicity, the remaining explanations of the principles and characteristics of the license will be limited to the patented invention.

3.66 The legal document evidencing the permission given by the owner of the patented invention is usually referred to as a "license contract" or, more simply yet, as a "license." The owner of the patented invention who gives that permission is referred to as "the licensor." The person or legal entity who or which receives that permission is referred to as "the licensee." The license is usually granted subject to certain conditions which will be set out in the written document by which the license is granted to the licensee.

3.67 One of the conditions will obviously be related to the payment by the licensee of money in return for the license that is granted. Another condition might be that the invention will be used by the licensee only for the manufacture of products destined for a specific use, as for example, the manufacture of a pharmaceutical product for use by humans but not for use on animals. Another condition might be that the licensee work the invention in certain factories only or sell the product embodying the invention in certain defined areas only.

3.68 It is also possible that the conditions may relate to promises to be made or action to be taken by the licensor. For example, the licensor may promise to defend in court a lawsuit brought by a third person against the licensee in which that third person claims that the working of the invention by the licensee violates the exclusive rights already conferred by the grant of another — a separate or distinct — patent for invention which is owned by that third person.

3.69 In a number of countries, the legal form of the document evidencing an assignment or a license contract and other formalities and requirements concerning an assignment or license are prescribed by the patent law or by the commercial law. Thus, a requirement may be imposed that an instrument of assignment of patent rights be executed in a particular manner, as for instance, it may be required that the instrument be signed not just by the assignor but also by the assignee.

3.70 In addition, in a number of countries, the patent law may require that an instrument of assignment of patent rights or a license contract be presented to the patent office for registration. By the act of registration, the assignee or the licensee is recognized by the Government as the transferee or holder of the rights transferred by the assignment or of the rights conferred by the license contract.

3.71 The law may also require that the terms and conditions set forth in the instrument of assignment or in the license contract be reviewed or examined and approved by one or more designated governmental authorities. For instance, where technology is to be acquired from abroad or where payments in foreign exchange must be made, the law might require the foreign investment commission or the central bank or both to review and approve the provisions of the assignment or the license contract.

The Know-How Contract

3.72 The third of the three principal legal methods for the transfer and acquisition of technology concerns know-how.

3.73 It is possible to include provisions concerning know-how in a writing or document that is separate from a license contract. It is also possible to include such provisions in a license contract. In the case where the know-how relates to a patented invention or a registered trademark or industrial design, the provisions are usually included in the license contract that deals with that patented invention or other object of industrial property. This is particularly so when the owner of the patented invention or other industrial property subject matter is also the developer and holder of that know-how. For a variety of reasons, however, even in such a case, the provisions concerning the know-how might be placed in a separate or distinct writing or document. Whenever provisions concerning know-how appear in a separate or distinct writing or document, that writing or document is normally called a "know-how contract."

3.74 Through such provisions, one party, the supplier of the know-how, undertakes or promises, to communicate the know-how to another party — the recipient of the know-how, for the use by that other party.

3.75 The know-how may be communicated in a tangible form. Documents, photographs, blueprints, computer cards and microfilm, among others, are illustrations of tangible forms. Examples of know-how that could be transmitted in such forms are architectural plans of the factory buildings, the diagrams of the layout of the equipment in the factory, drawings or blueprints of machines, lists of spare parts, manuals or instructions for the operation of machines or the assembly of components, lists and specifications of new materials, labor and machine time calculations, process flowcharts, packaging and storing instructions, reports on stability and environmental aspects and job descriptions for technical and professional personnel. Such know-how in tangible form is sometimes referred to as "technical information or data."

3.76 The know-how might also be communicated in an intangible form. Examples would be an engineer of the supplier of the know-how explaining a process to an engineer of the recipient or the manufacturing engineer of the recipient witnessing a production line in the enterprise of the supplier. Another example would be training in the factory of the recipient, or at the enterprise of the supplier, of personnel of the recipient.

3.77 Know-how in intangible form relating to the demonstration of, or advice on, manufacturing and other operations is sometimes referred to as "technical services." Know-how in intangible form relating to training is sometimes referred to as "technical assistance." Where the know-how

in intangible form is to consist in the actual direction of manufacturing operations, or other operations such as planning, or financial and personal administration, or marketing, it is sometimes referred to as "management services."

3.78 The possibility that the know-how to be communicated by the supplier to the recipient might be disclosed, accidentally or otherwise, to third persons, is a very real concern to the supplier of the know-how. The provisions concerning know-how in the contract will thus cover various measures to safeguard against the disclosure of the know-how to unauthorized persons.

Sale and Import of Capital Goods

3.79 The commercial transfer and acquisition of technology can take place with the sale, purchase and import of equipment and other capital goods. Examples of capital equipment are machinery and tools needed for the manufacture of products or the application of a process.

3.80 Raw materials, for example, crude oil or phosphoric acid, can also be considered as capital goods in that although they are products in themselves, they may be necessary for the manufacture of another product, such as gasoline or fertilizer, respectively. So also, intermediate goods, such as cotton or polyester fiber, or woven cloth and leather, which is to be cut and sewn into clothing, and parts or other components, such as tyres, batteries, radiators and engines, which are to be assembled into an automobile, may be regarded as capital goods in that they are needed in the manufacture of other products.

3.81 Such sales and purchases of capital goods and their import into the country can be considered, in a sense, technology transfer transactions. Contracts covering the sale and purchase and the import of capital goods are sometimes associated with a license contract or with know-how provisions or a know-how contract. In certain instances, provisions concerning the sale and purchase and the import of capital goods may be found in the license contract or the know-how contract itself.

Franchising and Distributorship

3.82 Commercial transfer of technology may also take place in connection with the system of the franchising or distributorship of goods and services.

3.83 A franchise or distributorship is a business arrangement whereby the reputation, technical information and expertise of one party are combined with the investment of another party for the purpose of selling goods or rendering services directly to the consumer.

3.84 The goods in question may be durable, as in the case of automobiles or home appliances. They may be consumable in use, as, for example, prepared food or beverages. The services may extend to the rental of capital equipment, for example, automobiles, trucks or other power equipment, or to hotel operations, or dry cleaning facilities, or secretarial help.

3.85 The outlet for the marketing of such goods and services is usually based on a trademark or service mark or a trade name and a special décor (the "look") or design of the premises. The license of such a mark or name by its owner is normally combined with the supply by that owner of know-how in some form, either technical information, technical services, technical assistance or management services concerning production, marketing, maintenance and administration. The owner of such a mark or trade name and know-how is called a "franchisor" or "licensor." The party to whom the license is granted and the know-how is supplied is called the "franchisee," "distributor" or "dealer." The franchisee, distributor or dealer may own the premises or contribute

money and time as an investment in the business firm. Other aspects of the business relationship of the parties to the contract, including sharing of the profits of the franchise or distributorship, will be agreed to between the franchisor or licensor and the franchisee or distributor or dealer and set forth in a document called a "franchise agreement" or "distributorship agreement."

3.86 As in the case of an assignment, a license contract and a know-how contract, the law may require that such franchise or distributorship agreements be registered and reviewed or examined and approved by one or more designated government authorities.

The Consultancy Arrangement

3.87 The help of an individual consultant or a firm of consultants that will give advice and render other services concerning the planning for, and the actual acquisition of, a given technology can be useful, if not indispensable, for such enterprises, entities and governments that wish to acquire technology from enterprises in other countries.

3.88 In such a business arrangement not only is help received in acquiring the technology but the experience gained and the lessons learned in engaging and working with the individual consultant or firm of consultants will be valuable knowledge that can serve to better carry out future projects.

3.89 As concerns planning, the advice or services may relate to the choice of the product to be manufactured or improved upon and the technology to be used, to the investment required, to the type of business organization or other relationships to be established, and to the suitability of each for the objective or objectives to be attained.

3.90 The consultancy services might extend also to the implementation of a project. "Design and engineering" services are a typical example. Such services concern the preparation of the plan for the site of the plant, the design of the factory building, the design of machinery and other equipment, the preparation of tender documents for the construction of the building or the equipment and for civil engineering work, the evaluation of bids and advice on the award of contracts, the supervision of the construction of the factory, including the installation of the equipment, the supervision of the start-up and testing of the equipment and making findings on the state of performance of the process utilized, as well as giving advice in the initial period on the operation of particular equipment or the entire factory.

3.91 One or more individual consultants or firms of consultants might be engaged to render the services in question. Usually, however, such an individual or firm specializes in a particular type of service, such as investment planning, design and engineering, environmental impact, marketing or business organization and management. In a sense, the consultancy services are forms of know-how. They can thus be considered within the framework of the know-how contract, more particularly, the technical services contract or agreement.

The Turn-Key Project

3.92 In certain instances, two or more of the business arrangements, and hence the legal methods that they reflect, can be combined in such a way as to entrust the planning, construction and operation of a factory to a single technology supplier, or to a very limited number of technology suppliers.

3.93 Thus, the "turn-key project" may involve a comprehensive arrangement of certain of the legal methods, whereby one party undertakes to hand over to his client — the technology recipient — an entire industrial plant that is capable of operating in accordance with agreed

performance standards. More usually, the turn-key project involves the undertaking by one party to supply to the client the design for the industrial plant and the technical information on its operation. In the latter event, supplementary arrangements might also be made for the acquisition of rights to the technology, for civil engineering work and for provision of technical services and assistance concerning the construction of the plant, the purchase and installation of equipment, raw materials or parts and components, training and supervision of the operation of the plant, at least in its initial stages.

3.94 It is called a "turn-key" project because the end result is to "turn" over to the client the "key" to the door of the industrial plant. That is a symbolic way of expressing the completion of the tasks agreed to between the parties.

3.95 Both the consultancy arrangement and the turn-key project arrangement have their shortcomings. The first does not usually entail the responsibility of the consultant for the results. In the second, the technology supplier or suppliers are so responsible. Neither the first nor the second provides means for a continuing involvement of the technology supplier so that access to later advances in its technology can be more readily facilitated. This is because neither contains a commitment to the technology acquirer to provide further advice or services or to provide improved or additional technology. Neither contains measures to provide money or other resources that may be needed for further growth.

3.96 Because of these shortcomings and for other reasons, joint venture arrangements can be more attractive means of industrial or commercial cooperation.

Joint Venture Arrangements

3.97 The nature of a "joint venture" is briefly referred to under "Territorial Franchises" in chapter 2. The subject is further developed here as to the forms of joint ventures possible, and the legal methods applicable.

3.98 There are two fundamental forms of joint venture, the equity joint venture and the contractual venture.

3.99 The equity joint venture is an arrangement whereby a separate legal entity is created in accordance with the agreement of two or more parties. The parties undertake to provide money or other resources as their contribution to the assets or other capital of that legal entity. That entity is usually established as a limited liability company and is distinct from either of the parties that participated in its creation. That company becomes the owner of the resources that are contributed by each party. Each of the parties in turn become the owners of the company, that is, each is said to have "an equity" in the company.

3.100 Where one or more of the parties is a foreign enterprise or entity, such a party is, or such parties are called a "foreign participant" or "the foreign participants." The parties or participants, as they are called, will agree on the purposes and functions of the limited liability company, the proportion of the capital each will contribute to, and the share of each in the profits of, the limited liability company, and on such other matters as its management, operation, duration and termination.

3.101 On the other hand, the contractual joint venture might be used where the establishment of a separate legal entity is not needed or where it is not possible to create such an entity. This may be the case where the project involves a narrow task or a limited activity or is for a limited time or where the laws of the country in which the business operation is to be conducted do not recognize

the ownership of property by foreigners. The relationship between the parties will be set forth in the contract or agreement concluded between them.

3.102 The different legal methods for the commercial transfer and acquisition of technology can be used in either form of joint venture arrangement.

3.103 An assignment of the exclusive rights to a patented invention, a utility model, industrial design or trademark by one of the participants could constitute a portion of that participant's contribution to the capital of the joint venture company. It is also possible, of course, for one of the participants to grant a license of a patented invention or other object of industrial property or to supply know-how as part of that participant's contribution to the joint venture company. More commonly, however, such a license or the supply of know-how in one or more of its forms will be the subject of one or more contracts made after the joint venture company is established. Those contracts will be concluded between one of the participants as the transferor of the technology in question and the joint venture company. Through such contracts the technology in question can be transferred to the joint venture company which will thus acquire the means to enable it to carry out its operations.

3.104 Whether one or more of the legal methods are used in the establishment of the joint venture company, or whether one or more of those legal methods are used and when so as to enable the joint venture to carry out its operations, will be matters for negotiation between the prospective participants. The result of their negotiations will be reflected in the joint venture agreement. The license contract, the know-how contract, the technical services or the technical assistance contract, the franchise contract and contracts covering other commercial matters might even form annexes to the joint venture agreement. They would be signed once the joint venture company was established.

3.105 Needless to say the joint venture agreement, whether it be for the establishment of a limited liability company or not, and the different contracts of the various legal methods that may be used, must be concluded in accordance with laws and regulations applicable to such companies and to the tax laws concerning those companies or to the laws relating to agency or partnership, as well as to other economic laws, including laws relating to labor, sales of goods, insurance and foreign economic and trade contracts.

Negotiation of Licensing Agreements

Introduction

3.106 Any technical licensing contract may be analyzed in respect of the following basic elements:

- the subject of the contract;
- the licensor's obligations;
- the obligations common to both parties.

3.107 The following topics are typically the subject of the negotiations leading to the conclusion of the license contract or which require special attention in drafting its provisions. These provisions are discussed from the point of view of the licensing of patents but they apply also to the other forms of intellectual property.

Identification of the Parties

3.108 One of the first points of concern to the negotiators of the license contract will be the identification of the entities or persons which or who will become the parties or, in other words, will sign the license contract and become legally bound to carry out its provisions.

3.109 The objective in describing the parties to a license contract is to identify each of them with sufficient certainty, so that their identity will not later become a subject of controversy.

3.110 This objective assumes particular significance in complex business transactions between more than one entity or person on either side and between entities or persons in different countries.

3.111 For example, one side in the negotiations leading to the conclusion of the license contract may be a grouping of legal entities, all organized and located in one foreign country or each organized and located in separate countries, but in either case, with a common ownership, control or other interest. In such cases, it may be contemplated that the patent license will be given by one of the legal entities in the group (or perhaps even by a legal entity outside the group) and that other performances will be undertaken or received by one or more of the other legal entities in the group.

3.112 Similar questions will arise where the other side to the negotiations is likely to involve a number of governmental authorities — ministries, commissions, bureaus or administrations or other governmental units — or public entities, state enterprises or private entities, including those established as a result of a joint venture with a foreign legal entity.

3.113 Further, consideration will have to be given to whether one document setting forth all the terms and conditions and commitments should be prepared and executed between all the parties on both sides or whether several documents, each containing distinct terms and conditions and commitments, should be drawn up and signed by the different parties on each side.

Objectives of the Parties: Scope of the License

3.114 When the parties are negotiating a license contract, they usually proceed on the basis that certain technology is necessary for the manufacture of a particular product or the application of a particular process from which a product or other result is to be obtained. In other words, the ultimate objective of the parties in concluding a license contract is the transfer by the licensor, and the acquisition by the licensee, of a given technology and of the right to exploit that technology in the making, or in the use or sale of a given product or in the application of a given process through which a product or other result will be obtained.

3.115 Their objective will be reflected in a general way either in a preambular part of the license contract, consisting of a series of provisions often referred to as "recitals" or "whereas clauses," or directly in an operative element of the license contract, consisting of a particular article entitled "background information."

3.116 The objective of the parties to the license contract will be expressed more specifically in subsequent provisions that delineate the "scope" of the license contract. One set of those provisions identifies the technical subject matter of the license contract (that is, the product or the process, the invention or inventions and the know-how and technological advances, if any). Another group of those provisions will determine which of the parties may perform one or more acts of exploitation, designate the place or places where that act or those acts may take place, establish the duration of the exploitation and specify the purpose or purposes for which the

technology may be exploited. Other provisions will prescribe the level of working of the invention or inventions, specify the means, if any, to assist in the exploitation, fix the remuneration for the exploitation and state the consequences of a failure of or of an interference with the exploitation of the technology or with other commitments agreed upon.

Subject Matter

3.117 These provisions describe the product to be made, used or sold, or the process to be applied and from which a product will be obtained and in turn used or sold; they will also identify the invention or inventions included in that product or process, describe the know-how, if any, that is to be supplied and identify the technological advances of one party or the other, and the conditions under which those advances will be made available by that party to the other.

Identification of Product or Processes

3.118 Since the ultimate objective of the licensee concerns a product or process, one of the provisions in the license contract will identify in concise terms that product or process. In the typical case, that provision is set forth in the part of the license contract dealing with definitions.

3.119 The product might be identified somewhat broadly, as for example, "instruments for the purpose of writing," which would include, for instance, fountain pens, ball-point pens and felt-tipped pens. The product might be defined more specifically, as for example, only one or more but not all of those kinds of pens.

3.120 The process might be identified as a chemical formula according to which certain chemical substances interact when a specified catalyst is introduced resulting in a specified product.

3.121 The title and the abstract included in the application for the grant of a patent for the invention that is embodied in the product or the process may be a useful starting point in providing the requisite information to describe the product or the process.

Identification of the Invention

3.122 The provision that identifies the invention or inventions included in the product or process usually refers to the number of the patent for invention or the application for the grant of a patent for invention, the country where the patent was granted or registered or where the application was filed, the date of the patent grant or the filing date of the application, and in some cases the title of the invention and the status of the application. Where the product or the process in question includes a number of inventions, the relevant information in respect of each invention is usually grouped together and set forth in a schedule attached to the license contract.

Description of the Know-How

3.123 Under the standard requirements of most patent laws, the description of the invention claimed in an application for the grant of a patent for invention must disclose the invention in a manner sufficiently clear, detailed and complete to permit a person having ordinary skill in the art to carry out the invention. Some patent laws go further, and require also that the best mode contemplated by the inventor for carrying out the invention be described. But those patent laws do not extend to requiring a description of additional means that may facilitate the carrying out of the invention. Such additional means may consist of the use of technical information and expertise acquired through long experimentation with the invention.

3.124 As regards the description of such know-how, technical information can be identified in terms of the relevant documentation, as for example, diagrams of the layout of the plant, drawings or blueprints of machines, lists of spare parts, manuals or instructions for the operation of machines or the assembly of components, specifications of raw materials, labor and machine time calculations, packaging and storing instructions and information on stability and environmental aspects. Job descriptions can be drawn up for each expert whose technical or professional expertise is needed. This information can be set forth in one or more annexes, appendixes or schedules attached to the license contract.

Confidentiality

3.125 Know-how is acquired or developed by the licensor in the course of research and development activities or through the application of industrial and business techniques in the operations of the licensor's enterprise. The know-how may often be the reason for the current competitive position, if not superiority, of the licensor in the field of technology concerned. As such, it is a valuable asset of the licensor to be preserved. At the same time, it is a resource which the licensor is willing to part with in exchange for an agreed price from the licensee or others who wish to use it. Its supply to the licensee is consequently the result of a bargain in which the price is not just the payment of a monetary remuneration fixed by the license contract but also the commitment by the licensee not to disclose that know-how to third persons except under certain conditions or with the consent of the licensor.

Access to Technological Advances

3.126 The technological advance of immediate concern to the parties to the license contract will normally be one which significantly or substantially affects, for example, in the case of a given product, the volume of its production, the cost of its manufacture or the efficiency of its use, or, in the case of a given process, the material conditions under which that process is applied, or the cost of its application, or the efficiency of its application.

3.127 The parties might decide that the mutual exchange of information on technological advances is in their best interests, and that each shall be free to exploit, free of charge, the technological advance of the other. This is called cross-licensing. They might also decide that if either party makes available the technological advance of the other to a third person for a remuneration, then the other shall be entitled to share in that remuneration in some agreed manner and amount. It is usually provided further that the party making the technological advance should apply for patent protection. In the event that it does not elect to do so, the other party may apply, in the name of either and at the expense of the party applying.

Limitations of the License and Anti-competitive Practices

3.128 The license can have several contractual limitations regarding permissible activities (to make, to sell, the fields of use, etc.), restrictions to part of the claims on them as well as territorial or quantity restrictions or limitations on the sale prices.

3.129 However, any provision conflicting with the prohibition of antitrust or anti-competitive practices is usually to be considered null and void. The main requirement is that as a rule exclusive intellectual property rights represent a pro-competitive monopoly for a limited duration only, so that their owner should not exercise his right by abusing his monopoly, e.g., by imposing anti-competitive obligations on the licensee. The most important forms of such abuse can be, for example, tie-in clauses, export bans, minimum royalty clauses, exclusive grant-back, conditions preventing challenges to validity and coercive package licensing. Tie-in clauses provide that the

licensee may purchase materials only from certain sources; grant-back clauses secure exclusive rights to improvements in favor of the licensor.

3.130 Under the TRIPS Agreement Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

3.131 Nothing in the TRIPS Agreement prevents Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights, with an adverse effect on competition in the relevant market. A Member may adopt, consistently with the other provisions of the Agreement, appropriate measures to prevent or control such practices, in the light of the relevant laws and regulations of that Member.

Territorial Exclusivity

3.132 Which of the parties to the license contract will be able, by virtue of its provisions, to perform what act or acts of exploitation, in what territory or territories, and with what effects on arrangements with third persons in relationship with the licensor or the licensee, who are also interested in exploiting the technology, are distinct but related questions. They are related because each concerns the exclusive right of the licensor under the patent for invention granted to the licensor which will be the subject matter of the license contract. A decision on each of these questions must be clearly reflected in the license contract.

Permitted Field of Use

3.133 A provision on the field or fields of use or activity specifies the purpose or purposes for which the invention or the know-how may be applied. It serves to define the scope of that application by the licensee. At the same time, depending on that defined scope, the licensor may be able to grant a license or supply know-how to each of a number of other licensees, each specializing in different applications of the invention or the know-how in question. That permits the most practical way of exploiting the invention or know-how, given the capabilities of each particular licensee.

3.134 In the long run, though, it may be desirable for the licensee to have the opportunity to apply the technology for all purposes. The price asked for in that case, however, must be compared to the lower price which may be asked for if a limited purpose is agreed to. The comparison becomes all the more relevant if the licensee is not currently, nor in the future likely to be, in a position to exploit the technology beyond the limited purpose.

Exploitation

3.135 The licensor expects that the licensee will not only exploit the invention and apply the know-how but will do so to the fullest extent permitted by the terms and conditions of the license contract.

3.136 The parties might wish to specify that the licensee will make, use or sell the product that includes the patented invention or will apply the know-how in a certain manner with a view to obtaining a certain result and to exploiting the technology at a certain level. The parties might wish also to set forth the commitments of the licensor, the performance of which will assist the licensee in achieving the expected manner and extent of working or other exploitation.

3.137 The questions that usually arise in respect of the manner and extent of exploitation are concerned with the following matters: the quality of the product, the volume of production, the making of part of the product by third persons to be authorized by the licensee, the import of the product to meet local demand in the absence of sufficient working in the country itself and the use of the distribution channels of the licensor.

3.138 The licensee may seek an assurance that the know-how supplied will be adequate to attain the objective agreed with the licensor. Such an assurance is referred to as a guarantee of know-how. In this context, a guarantee is an assertion that a given fact or event concerning the know-how exists or that a given performance will take place if the know-how is applied; that assertion is accompanied by a promise that if the fact or event does not exist or the performance does not take place, a correction will be made or some other act will be done in its place.

3.139 The guarantee provision of the license contract might be phrased in terms of the conformity of the know-how supplied to the agreed description of what was promised to be supplied. It might be phrased in terms of the results to be attained by the application of the know-how. It might be phrased in terms of the suitability of the know-how to meet the technological requirements of the licensee.

Settlement of Disputes

3.140 When non-performance is likely to or does occur, and there is no provision in the license contract which fixes the agreed consequences in respect of that failure of performance, one party might propose a solution that is satisfactory to the other. That solution might be the allowance of additional time to render the performance or the substantial correction of the flaw or flaws in question. It might mean that some other performance in lieu of the defective performance would be acceptable. In these ways, an amicable way of settling the dispute between the parties could be arrived at without recourse to legal remedies in the courts or other tribunals.

3.141 Normally, the law of the country where a given act or performance is to take place governs the disputes arising out of that act or performance and the competent courts are the courts of that country. In the case of a license contract involving a foreign licensor and a domestic licensee, the law of the licensee's country would be applicable and the courts of that country would be competent since most, if not all acts or performances take place in that country. However, the contract may stipulate, subject to possible limitations under the law of the licensee's country, that disputes arising under the contract will be subject to arbitration rather than to judicial proceedings.

3.142 Yet circumstances could arise when the party injured by the default in the performance of the other is not offered a satisfactory solution. It could be also that the party alleged to have defaulted, denies that there has been a failure to perform as agreed. In either event, some machinery for the settlement of the dispute should be provided for before recourse is had to the courts or other tribunals. Thus, recourse might have been to the advice of independent experts, or the findings and recommendations of a group consisting of representatives of each side, or to conciliation or to arbitration proceedings or, ultimately, to the courts or other tribunals competent in the matter. In particular, a clause designating the WIPO Arbitration Center as the forum for settling disputes may be added to a license contract.

Duration of the License Contract

3.143 The time-scale of a licensing contract, that is, its commencement, duration and termination, must be stipulated in the contract. An intellectual property right can be licensed for the maximum period of time during which it is in force (for patents, for instance, the maximum is generally

20 years). Shorter licensing periods may also be agreed upon and the parties may reserve the right to terminate the contract with future effect in case of specified circumstances.

Remuneration

Introduction

3.144 The “price” or the “cost” of the acquisition of industrial property is dependent upon a number of factors, including the nature and duration of the industrial property rights and the technology and the relative bargaining power of the parties. The prospective transferor usually makes a careful assessment in terms of value or the need for the particular technology, the alternative technologies available, the prospect of technological advances and the likely production and profitability of the potential transferee. The prospective transferor also makes detailed projections of production and consequent income flow from other potential licensees or technology recipients.

3.145 The potential transferee assesses the total payments likely to be made for a particular technology and for advances in that technology against the profitability of the enterprise over a period of time and also evaluates such payments in relation to costs of alternative technology or payments made with respect to similar transactions.

Direct Monetary Compensation

3.146 Direct monetary compensation for industrial property rights or for technology may take different forms: (a) “lump-sum payment”, a pre-calculated amount to be paid once or in installments, (b) “royalties”, post-calculated, recurring payments, the amount of which is determined as a function of economic use or result (production units, service units, sales of the product, profits), and (c) “fees,” compensation for services and assistance rendered by technical or professional experts, fixed at a specified amount or calculated per person and per period of service.

3.147 These forms of remuneration may be combined in a given industrial property license or technology transfer agreement. In some instances, the lump-sum payment form may replace the system of royalties altogether, while in other instances the two might be combined one way or another, as where the licensee or technology recipient may elect to make a lump-sum payment in lieu of one form of royalty or another. In other instances, the licensee or technology recipient may be given the opportunity to elect to pay royalties on production units rather than on sales. The fees for technical services and assistance may be determined separately, either stipulated in advance or negotiated as rendered.

3.148 It is to be noted, however, as elaborated below, that under the laws in certain countries governing the transfer of technology, the various rights or elements of technology may have to be separately priced or valued and even made the subject of distinct licenses or agreements.

Lump-Sum Payment Compared with Royalties

3.149 The lump-sum payment is characterized by the fact that the obligation is fulfilled immediately or fairly shortly. Further, the parties do not have to make continuous accounts or control the calculation or the remittance, as in the case of royalties.

3.150 The lump-sum payment, when compared with royalties, may or may not have certain tax advantages. The continuous payment of royalties is considered to be income to the licensor or technology supplier from the viewpoint of taxation and, as such, royalties are subject to income tax. The single lump-sum payment, and even the lump-sum payable in instalments, may be considered the counterpart to, or the financial result of, a sale or purchase operation, with the assignment or transfer of the industrial property rights and the supply of the know-how considered analogous to the sale of commercial goods. The licensor or technology supplier will also have to pay taxes on the lump-sum payment. The single lump-sum payment, however, may be subject to a different (often higher) tax rate than income in the form of royalties. Under some tax laws, it may be possible to alleviate the higher or progressive rates on the lump-sum payment if it is split into instalments and paid over several tax years and thus subject to lower tax rates.

3.151 Where a more or less single performance is the counter value, the lump-sum payment may lead to results economically more justified between the parties. If, for example, unexpected high sales are reached, especially under the influence of monetary fluctuations or other economic circumstances, the system of royalties leads to unexpected and unjustified returns to the licensor or technology supplier. Upon the payment of a lump-sum, the licensor or technology supplier would receive only the counter value of the single performance which was thought justified at the time the agreement was concluded.

3.152 On the other hand, the lump-sum payment may also entail risks for the licensee or technology recipient if production or sales of the product lag behind expectation and if the lump-sum payment is disproportional to the economic value of the performance of the licensor or technology supplier.

Lump-Sum Payment and Royalties Combined

3.153 In many cases, the remuneration for industrial property rights or know-how is a combination of a lump-sum payment and royalties.

3.154 The lump-sum payment is often treated as an initial payment for disclosing information that enables the potential licensee or technology recipient to evaluate the technology. The actual initial payment varies a great deal from transaction to transaction and may range from a small sum for the delivery of initial technical information to a very large amount for sophisticated technology that has required much research and development. In some instances, the initial lump-sum payment may be viewed as a minimum payment or regarded as a down payment or advance against royalties. Further, the licensee or technology recipient may be given the opportunity to make an additional lump-sum payment, stipulated in advance or negotiated at the time of the election to make that payment, in lieu of royalties, with a credit against the payment of the royalties already made.

3.155 In negotiating remuneration in the form of a combined lump-sum payment and royalties, the licensee or technology recipient will need to evaluate carefully the total outflow and incidence of the payments that may be likely for various combinations. The burden of interest charges, for example, is important in determining the size of the lump-sum figure, while projections of production estimates and of cash-flow from sales during the period of the license or agreement are essential in assessing the percentage rate of royalties.

Fees for Technical Services and Assistance

3.156 Specific technical services and assistance, to be provided by the licensor or technology supplier, may be necessary in connection with the transfer of the technology or the marketing of the product under a trademark, and may have to be paid for separately.

3.157 The fees for specific technical services and assistance related to a patent or trademark license or a technical know-how agreement include: (a) the cost of training programs for the personnel of the licensee or technology recipients; (b) fees for technical services and assistance to be rendered by technical experts of the licensor or technology supplier to the licensee or technology recipient at the latter's industrial plant during the period of the license or agreement; (c) fees for technical services and assistance which concern machinery, equipment or other capital goods needed in the utilization of the technology at the industrial plant of the licensee or technology recipient.

Indirect and Non-Monetary Compensation

Income from Related Operations

3.158 The licensor or technology supplier may receive income from various operations. These may be commissions on the sales of the product made on behalf of the licensee or technology recipient through the distribution channels of the licensor or technology supplier, profits from the sale of the product supplied to the latter under exclusive purchase arrangements, profits from the sale to the licensee or technology recipient of related products which complete its marketing program, profits from the sale to the licensee or technology recipient of raw materials, intermediate goods, parts or other components and rentals from machinery, equipment or other capital goods released by the licensor or technology supplier to the licensee or technology recipient.

Dividends

3.159 If the licensor or technology supplier assumes a financial participation in the enterprise of the licensee or technology recipient or if they enter into a joint venture, the licensor or technology supplier will obtain, in the event of successful commercial operations, dividends from the financial participation. If an essential part of the commercial operations depends upon the industrial property rights or technology of the licensor or technology supplier, there may be a direct dependency between the amount of the royalties and the amount of the dividends: the higher the royalties, the lower the dividends, and vice versa. The degree of participation and financial and tax factors may dictate the relevant amount to be assigned to each and the formation of reserves or the holding back of profits, which may lead to an increase in the value of the financial participation.

3.160 In this context, attention is directed to the laws in certain countries governing the transfer of technology which treat as profits payments in respect of the price of industrial property rights or technology made between a subsidiary and its parent, or between subsidiaries; or where there exists economic unity or community of interests between the parties, or where effective technical, administrative, financial and commercial management of the technology transferee is exercised by the technology transferor; or where the technology transferor supplies raw materials or intermediate products used in the process in an amount equal to more than a specified percentage of the total cost of the product. Some of these laws also provide that in such cases the lump-sum payment or royalties may neither be treated as a contribution to capital nor constitute shares in the profits or in the capital of the enterprise of the licensee or technology recipient nor be deducted for the purpose of calculating the tax on its income.

3.161 Under the laws in certain other countries governing the transfer of technology, although royalties may be paid by the licensee or technology recipient to the licensor or technology supplier even where the latter has a financial participation in the former, the amount of the royalty payments must be reduced substantially in the event that the licensor or technology supplier has a majority participation in the licensee or technology recipient; in addition royalty payments by a wholly owned subsidiary to its foreign parent company are ordinarily not permitted.

Cost Shifting or Sharing Measures

3.162 Certain cost shifting or sharing measures, for example, the expenses in maintaining or defending rights under the patent or the trademark, that are adopted, may have the effect of reducing the expenses of the licensor or technology supplier and increasing the cost to the licensee or technology recipient of the technology transfer transaction.

Feed-back of Technical Information

3.163 The technical know-how of the licensee or technology recipient which is to be turned over to the licensor or technology supplier can also constitute a form of income to the latter.

Acquisition of Market Data

3.164 The licensor or technology supplier may benefit from data provided by the licensee or technology recipient concerning the marketing of the product in the local area, including new sales promotion techniques, which may prove useful to the marketing of the product in other areas.

Cost Reductions and Savings to the Licensee

3.165 Some elements of a given technology transfer transaction may have the effect of reducing the operating expenses of the licensee or technology recipient or otherwise lead to savings on the part of the technology transferee.

3.166 Mention may be made of such measures as the utilization by the licensee or technology recipient of the channels of sales distribution of the licensor or technology supplier, the use without payment of the trademark of the licensor or technology supplier, access for the licensee or technology recipient to information concerning improvements to existing inventions, developments in know-how, new inventions of the licensor or technology supplier or rights in respect of such technological advances, and the opportunity to benefit from the marketing information and other technical services and assistance of the licensor or technology supplier.

Description of the Currency of the Obligation and of Payment

3.167 It is necessary to distinguish two aspects of the question of currency designation. The first concerns the determination of the currency which will serve as the measure of the obligation to pay, and the second relates to the choice of the currency in which payments will be made to discharge that obligation. The currency of obligation and the currency of payment may be one and the same, but may also be different, as is often the case in an international commercial transaction.

Currency of Obligation

3.168 The currency of the obligation in the case of the lump-sum payment may be the currency of either the country of the licensor or technology supplier, or the country of the licensee or technology recipient or a third country.

3.169 In the case of royalties, if the royalty amount is linked to the volume of production and does not depend on the value of the unit produced, the currency chosen may be either that of the country where production takes place or that of another country. If the royalty amount is linked to sales, the currency chosen may be that of the country where sales take place. If export sales are likely, more than one currency may be chosen — the currency of the country of the licensee or technology recipient where production and domestic sales occur, and the currency or currencies of

the country or countries where the export sales are made. If royalties are linked to the profits of the enterprise of the licensee or technology recipient, then the currency of the country where that enterprise is legally organized may be chosen.

3.170 As concerns fees for technical services and assistance, the determination will most likely be between the currency of the country of the expert and the currency of the country where the services are performed; however, in the case of services performed by experts sent to the country of the licensee or technology recipient, the amount of the fees will normally be determined in the currency of the country of the expert, with payment in whole or in part in the currency of that country and the remainder, if any, plus the portion attributable to living expenses and other facilities in the country of the licensee or technology recipient.

3.171 Under the laws in certain countries governing the transfer of technology, it is provided that the currency of the obligation must be currency of the country of the licensee or technology recipient, though remittance abroad may be made in the equivalent foreign currency; whereas, under the laws in some other of these countries, though the currency of the obligation may be expressed in a foreign currency at least the expenses connected with the maintenance of experts in the country of the licensee or technology recipient must be paid in the currency of that country.

3.172 Many factors may play a role in the choice of the currency of payment. These are whether the currency of obligation can be utilized in the country of that currency by the licensor or technology supplier, the inflation rate in the country of the currency of obligation, the stability in the international money markets of that currency in relation to other currencies, the existence of currency exchange controls in the country of the currency of obligation or where the income of the licensee or technology recipient is generated, and the applicability of tax laws which may provide special benefits for one party or the other.

Rate of Exchange

3.173 In the event of the currency of payment chosen differing from the currency of obligation, the rate of conversion will normally figure as a provision in the license or agreement. Any one of a number of different exchange rates may be selected; for example, the official rate established by national or international monetary authorities, or an average of the said rates or a commercial rate, such as the telegraphic transfer selling rate or other selling rate or other rate of a specified domestic or foreign commercial bank.

Types of Intellectual Property Licenses

Introduction

3.174 The typical provisions of an intellectual property license are discussed above in general terms. Some provisions are particular to the type of intellectual property being licensed. Some of the more important of these provisions are listed below.

Patent Licenses

3.175 Under a patent license, the purpose of the contract is to authorize the use of an invention protected by a patent. The patent involved is identified by stating the name of the country in which it has been granted, together with its number. Generally, the technical subject matter of the invention is briefly stated in the preamble or in the article defining terms used in the contract.

Reference is also frequently made to a separate annex when the license concerns a number of patents issued in differing countries. It is advisable to state exactly those countries in which patent applications are still pending and to stipulate which of the parties is responsible for complying with the administrative and legal formalities required for the upkeep of the patent.

3.176 A patent affords a set of exclusive rights: to use the invention, to manufacture it, to sell it or place it on the market. Generally, a license provides an authorization for the licensee to carry out all those acts.

3.177 A license may be an exclusive license, a sole license, a non-exclusive license or a simple license. An exclusive license guarantees that the licensee will have no competition, not even that of the licensor or of the latter's subsidiaries. This must be stipulated in the agreement. A sole license guarantees the licensee that the licensor will afford no licenses to other manufacturers within the contractual territory. A simple license provides no guarantees in that respect, but simply constitutes an authorization to use the invention. A non-exclusive license means that another license for the creation has been granted in the contractual territory.

3.178 In such cases, it is recommended to include in the contract what is known as the "most favored licensee clause." Such a clause ensures that the licensee will enjoy the most favorable conditions that may subsequently be granted to a second licensee (for the same territory). This clause thus avoids any distortion of competition that would result from differing contractual conditions for the supply of technology.

3.179 The right to sue infringers is normally the privilege of the licensor as owner of the patent. However, an exclusive licensee can sue for infringement in the name of the patent owner.

3.180 Any licensee is protected against the inaction of the patent owner in case of infringement, and has the right to institute infringement proceedings in his own name if the owner of the patent, after being called upon to do so by the licensee, does not do so within the specified period.

3.181 In a contractual license, a licensee may be granted the right to institute infringement proceedings without having to request the owner of the patent to do so, or, the licensee may be completely barred from instituting infringement proceedings.

3.182 A person licensed to use a patent may challenge the validity of a patent. So-called "no-challenge clauses" which prohibit the licensee from contesting the validity of the licensed patent are anti-competitive.

Trademark Licenses

3.183 Trademark licensing is of fairly recent origin in trademark history. Since the original function of a trademark was to indicate trade origin, goods emanating from a source other than the trademark owner could not, without deception, carry a licensor's mark. Indeed the grant of a trademark license rendered a licensor vulnerable to a claim of non-use and so to invalidation of his mark. The exercise by a licensor of quality control over the products sold by a licensee to which the mark was affixed opened the door to the fiction that such control was a manner for the user to avoid the expungement of the mark. This fiction formed the basis of the registered user provisions inserted into most trademark statutes for more than forty years.

3.184 Most registered user provisions require the license parties to submit their agreements to the Registrar who scrutinizes them to ascertain the nature and extent of the quality controls to be exercised by the licensors. The Registrar is obliged to ensure that registration of such agreements

accord with the national interest, and the Registrar is required to refuse registration to agreements which appear to him to facilitate trafficking. It should be noted, however, that registration has been considered not to be essential for validity of a trademark license. The registration provisions have been described as permissive and not mandatory. Provided a licensor maintains control over the quality of the licensed products and the licensor is perceived as retaining a connection with the licensed products, invalidation can be avoided.

3.185 It should be noted in this context that in September 2000, the WIPO General Assembly and the Assembly of the Paris Union adopted a Joint Recommendation Concerning Trademark Licenses providing a maximum list of information and elements that an Office may require for a license to be recorded (Article 2(1)). The Recommendation also attempts to limit the effect of non-compliance with recordal requirements to the license agreement itself by stipulating that non-recordal of a license should not affect (i) the validity of the trademark which is the subject of the license (Article 4(1)), (ii) any right that a licensee might have under the legislation of Member States to join infringement proceedings initiated by the holder (Article 4(2)(a)) and (iii) the question whether use of a mark by a third person can be considered use by the trademark holder which can be relevant in the context of use requirements (Article 5).

3.186 Trademark licenses may be granted as adjuncts to or separately from patent and know-how licenses. Among the provisions particular to most trademark licenses are the following:

3.187 *Permission to Use.* The grant of permission to use the relevant mark or marks is the first-stated provision of most license agreements. The particulars of the mark or marks are usually listed in a schedule to the license agreement, together with the products in respect of which the mark is to be used.

3.188 *Number of Licensees.* It will be important for the licensee to know how many other licensees will be appointed to service the license territory. It will also be important to ascertain whether the licensor intends to distribute within the territory. Finally, it will be important to a licensee where others are to be appointed to ensure that its rivals are appointed on comparable terms.

3.189 *Quality Control.* As mentioned above, at the heart of any registered user agreement is a provision that the licensee will not use the marks on products which do not attain the standard of quality prescribed by the licensor. Quality control provisions will provide that the user receives, on a confidential basis, all specifications, technical data and know-how of the licensor to allow the prescribed quality standards to be met. Policing of this clause will usually require the user to send sample products to the licensor and to permit inspections of the user's factory and warehouses and of methods of production, materials used, storage and packing of finished products. The agreement should permit the user to dispose of products which do not meet the quality standard, provided they do not carry the trademark.

3.190 *Marketing.* The license will designate the territory in which the trademark may be used. This will usually contain prohibitions against trading outside the designated territory as well as provisions keeping the licensor out of the license territory. Advertising material employed by the licensee may have to receive the licensor's approval.

3.191 *Financial Arrangements.* In addition to a fee or royalties for being permitted to use his trademarks, a licensor may also require payment in respect of the provision of skilled persons to instruct employees of the licensee in the materials required to achieve the prescribed quality standards required in the agreement. Arrangements also have to be made to allocate the cost of

the sampling procedure. Finally, the licensee is usually required to keep detailed books and records of sales of the trademarked products.

3.192 *Infringements.* The licensee is normally required to report to the licensor all particulars of infringements that occur, and the licensor is usually responsible for conducting infringement proceedings.

Copyright Licenses (Publishing)

3.193 In the case of a publishing contract, the owner of copyright does not need and usually does not intend to part with his copyright or even his right to control the publication of his work. Under certain copyright laws, which consider the author's economic rights inseparable from his moral rights, assignment of the author's right to publish the work may not even be possible. When entering into a publishing contract, the owner of the copyright usually only undertakes to restrict the exercise of his right in the work to be published and restrict it to the extent necessary for the publisher to be able to use the work. At the same time, the ownership of copyright does not change but remains with the author or other owner of the copyright.

3.194 Thus, a characteristic publishing contract is a mere license granted to the publisher by the owner of copyright. To be of value to the publisher, a license must also enable him to protect his publishing activity against third persons.

3.195 A license is generally understood in the field of copyright as the authorization given by the author or other owner of copyright (licensor) to the user of the work (publisher or other licensee) to use it in a manner and according to conditions agreed upon between them.

3.196 The publisher should be granted a license comprising all the rights necessary for optimum realization of the planned publication. Generally, he acquires an exclusive license (providing him with an exclusive right) to reproduce and publish the work concerned — or, if appropriate, to provide, reproduce and publish its translation — in a standard trade edition, comprising a reasonable number of copies.

3.197 The license can be granted for one edition only, or also for subsequent ones. The size of a single — or the first — edition is usually determined in the contract either by fixing the number of copies it should comprise, or by stipulating a minimum and/or maximum number of copies ("the print run"). The agreement on the size of a single — or the first — edition usually takes into account the need to comply with the presumable demand of the public, at costs permitting sales at the usual retail price per copy prevailing in the given book market as regards similar publications.

3.198 In the case of a license to publish the work in translation, the language (or languages) of the authorized edition (or editions) must be specified.

3.199 In order to promote the dissemination of the work published, and with regard to possible further exploitation of the publication under the contract, the licensee may acquire also certain so-called "subsidiary rights." Such rights serve the purpose of reproducing or communicating to the public, or licensing others to reproduce or communicate to the public, the work (or its translation) in specified forms other than the standard trade edition.

3.200 Such subsidiary rights may for instance comprise: the right of previous and subsequent publication in the press of one or more extracts from the work; serial rights, that is, the right to publish the entire work or parts of it in one or more successive issues of a newspaper or periodical, before or after publication of the work in the standard trade edition; the right to read extracts from

the work in sound or television broadcasting; the right to include the published work or a part of it in an anthology; the right to arrange for pocket book or book club editions subsequent to the standard trade edition.

3.201 Publishers often request the licensor to confer on them, in the framework of subsidiary rights, the right also to license the reproduction of the published work by means of making microfilms or other reprographic reproductions thereof, for purposes beyond the limits of fair use allowed by the law. The publisher may also request the right to license storage of the work in a computer, accessible to the public. Again, publishers may request the licensor to entitle them to license the reproduction of the work in the form of sound recordings as well. Sometimes, also the right of licensing the reproduction of filmstrips is requested. All these kinds of reproduction by means of modern technology are often referred to in contemporary publishing contracts as "mechanical reproduction" of the work, and the rights involved as "mechanical reproduction rights." This term should not be confused with the notion of the "musical mechanical right," which means the right to reproduce a musical work in the form of sound recordings.

3.202 It is a reasonable and usually accepted position not to confer on the publisher rights to exploit the work in any manner involving its adaptation, such as dramatization rights for stage or film production, or for sound or television broadcasting, or translation rights in general. Strictly speaking, the exploitation of such rights goes beyond the scope of the promotion or direct exploitation of the publisher's own publication of the work.

3.203 The grant of "digest rights" (the right to publish an abridgment or shortened form of the work), or of the so-called "strip cartoon rights", is often made subject to special authorization in each case, in view of the moral interests of the author relating to the integrity of his work.

3.204 With regard to the integrity of the work to be published, special stipulations can be incorporated in the contract. This may prove useful especially in countries where no appropriate "moral rights" provisions are established by legislation. For example, it may be agreed that "the publisher shall reproduce the work without any amendment or abbreviation thereof, or addition thereto."

3.205 As regards translation of the work, it is usual to agree that "the publisher shall have a precise and faithful translation made at his own expense. The title of the translation is subject to the written approval of the copyright licensor. On request, the final text of the translation shall also be submitted to him for approval."

3.206 It can also be stipulated that "the Publisher shall ensure that the title of the work and the name of its author shall appear with due prominence on every copy produced." Depending on the circumstances, it also can be added that "the Publisher undertakes to print the name of the original publisher (that is, ...) as well as the year(s) of the previous edition(s) of the work on the verso of the title page."

3.207 With regard to certain formalities required in a few States (mainly in the United States of America) as a condition of the full enjoyment of copyright in published works, it is generally stipulated in publishing contracts that an appropriate notice of copyright shall be printed on the title page. The notice consists of the symbol C, or ©, the year of the first publication of the work and the name of the owner of the copyright in the work.

3.208 As regards distribution of the copies published, it is often stipulated that "the Publisher shall provide for efficient promotion of the work at his own expense." In cases where his license has not been confined to one edition only, it is often added that "he shall see to it that the book is

continuously available, and that new editions are printed in due time so as to comply with actual demand.”

Government Control of Licensing Agreements

3.209 In many developing countries, the inflow of technology is subject to a variety of controls as a means of ensuring that contracts concerning transfer of technology are consistent with the economic aims of the government. In some countries, these controls are part of a more comprehensive system of laws dealing with foreign investment in the country. In others, the controls result from the foreign exchange regulations which are directed at the flow of payments abroad, whether as dividends, royalties, or income in other forms or as the return of capital. Indirectly, import regulations, particularly lower tariff rates or exemptions on products embodying needed technology, may also have an effect on the inflow of technology. In still other developing countries, legal systems have been devised specifically to control the transfer of technology to, or within, the country. These systems include the requirement that industrial property licenses and technology transfer agreements be notified to government authorities or be registered or approved by them in accordance with criteria established by the legislation or set forth in regulations or guidelines issued by appropriate governmental bodies.

3.210 The failure of the responsible party to submit for registration or approval an industrial property license or technology transfer agreement or its modification, amendment, extension or termination, to the appropriate government authorities within the time limits and under the other conditions prescribed has a number of legal consequences. Under the relevant laws, the failure to comply may render the license or agreement void or unenforceable and subject the party responsible to a penalty or to the suspension of its right to trade or to loss of its business organization status. The registration or approval of the license or the agreement may be a prerequisite to giving evidence of actual exploitation of a patent or actual use of a trademark in the country, or obtaining an authorization from the fiscal authorities to make payments abroad or to receiving fiscal or other benefits designed to encourage or promote investment in certain sectors or industries.

3.211 The WIPO Model Law for Developing Countries on Inventions (Volume II), contains provisions establishing a legal and administrative framework for the examination and registration of such contracts in accordance with the policy of ensuring that such contracts do not impose unjustified restrictions on the acquirer of the technology (“the transferee”) which would have the consequence that the contract, as a whole, would be harmful to the economic interests of the country.

3.212 The intent is not only to protect the local enterprise that is contracting to acquire the technology, which frequently is in a relatively weak bargaining position, but also, and even to a higher degree, to prevent the economic policy of the government being frustrated by certain contracts. It is of vital importance to a developing country that — even though badly needed — the acquisition of foreign technology should not impose an undue burden on its economy. If the cost of technology should exceed its value to the local economy, there may be serious consequences; for example, a decline in the industrial growth rate, depletion of natural resources, unfavorable balance of trade, misallocation of financial resources, etc.

3.213 The Model Law provides that the examination and registration of contracts is a task of the Patent Office. According to the organizational structure of the government, instead of the Patent Office, another government agency could be entrusted with this task.

3.214 In order to assist the Office concerned in the examination of such contracts the Model Law establishes a list of 17 terms that the Office must particularly take into consideration. The list of 17 terms is not exhaustive: registration of a contract can be refused even if that contract does not contain any of the terms listed; this can be the case if the contract contains a term not appearing on the list but which imposes certain restrictions upon the transferee so that the contract, taken as a whole, is harmful to the economic interests of the country. Secondly, the presence in the contract of any of the 17 terms listed does not necessarily entail a refusal to register the contract; registration of the contract can only be refused if the restrictions imposed upon the transferee are unjustified and if the contract, taken as a whole, is harmful to the economic interests of the country; indeed, depending on the circumstances of the case, the presence of the term in question might not entail detrimental effects to the economic interests of the country or, if it does entail such effects, these might be offset by positive effects for the economic interests of the country brought about by the presence of other terms in the contract, since no codification of specific terms can anticipate the practically unlimited number of background factors (business, commercial, technological, etc.) which may enter into a determination of the effect a given contract will have within a given economic environment. In other words, the Office must apply the provisions with flexibility, while considering the particular merits of each contract in the light of the economic interests of the country.

3.215 The said 17 terms are those the effect of which would be:

- to import technology from abroad when substantially similar or equivalent technology may be obtained on the same or more favorable conditions without any importation of the technology from abroad;
- to oblige the transferee to make payments which are disproportionate to the value of the technology to which the contract relates;
- to oblige the transferee to acquire any materials from the transferor or from sources designated or approved by the transferor, unless it is otherwise impossible, for all practical purposes, to ensure the quality of the products to be produced and provided that the said materials are supplied at a reasonable price;
- to restrict the transferee's freedom to acquire any materials from any source unless it is otherwise impossible, for all practical purposes, to ensure the quality of the products to be produced;
- to restrict the transferee's freedom to use any materials which are not supplied by the transferor or by sources designated or approved by the transferor, unless it is otherwise impossible, for all practical purposes, to ensure the quality of the products to be produced;
- to oblige the transferee to sell the products produced by him exclusively or principally to persons designated by the transferor;
- to oblige the transferee to make available to the transferor, without receiving appropriate payment, any improvements made by the transferee with respect to the technology to which the contract relates;
- to limit the quantity of the products produced by the transferee;
- to restrict the transferee's freedom to export or his freedom to allow others to export the products produced by him, provided that if the transferor owns, in a country to which such

a restriction applies, a patent which would be infringed in case of importation of the said products into the said country; if the transferor has a contractual obligation not to allow others to export the said products to such a country; or if the transferor already supplies the market in such a country with the same products, such facts shall be taken into account;

- to oblige the transferee to employ persons designated by the transferor not needed for the efficient transfer of the technology to which the contract relates;
- to impose restrictions on research or technological development carried out by the transferee;
- to restrict the transferee's freedom to use any technology other than the technology to which the contract relates;
- to extend the coverage of the contract to technology not required to achieve the objective of the contract and to oblige the transferee to give consideration for such technology;
- to fix prices for the sale or resale of the products produced by the transferee;
- to exempt the transferor from any liability resulting from any defect inherent in the technology to which the contract relates or unreasonably to restrict such liability;
- to restrict the transferee's freedom to use, after the expiration of his contractual obligations, the technology acquired as a result of the contract, subject, however, to any right of the transferor under a patent;
- to establish the duration of the contract for a period which is unreasonably long in relation to the economic function of the contract, provided that any period which does not exceed the duration of the patent to which the contract relates shall not be regarded as unreasonably long.

3.216 The system provided for by the Model Law, although it enumerates some of the most important clauses to be considered, recommends a flexible approach which allows the examination of each contract on its merits within the general economic and technological context of the country concerned.

Copyright and Development

3.217 Copyright has a special role in the context of development. Particularly since the 1950s, when the political map of the world changed considerably, and several States progressively became independent and other States were newly created, developing countries have had to cope with the enormous problems of educating the vast masses of their peoples. Some developing countries, racing against time in order to provide mass education by methods both formal and non-formal, are facing acute challenges in respect of encouraging and fostering intellectual creativity and satisfying the urgent need for promoting knowledge, particularly in the field of science and technology, in their countries.

3.218 Most developing countries, on attaining independence, have given priority to the training of their peoples and to education, in order to meet the need for staff and management personnel to

design and implement development policies and plans. Progressively, emphasis had to be placed on the need to give an essentially national character to the training of the people.

3.219 It is indeed important that people be trained in a manner that is in keeping with their natural environment. Consequently, teaching material, including literary, artistic and scientific works, has to be created by authors originating in the community to which the works are addressed, and the community has in turn to see and recognize its reflection in them. A reasonable level of recourse to foreign works will continue to remain desirable, in order to facilitate cultural interchange and the reciprocal flow of ideas.

3.220 In many developing countries, there is a shortage of specialists in certain areas of knowledge. Incentives and subsidies are required for the purpose of encouraging national authorship both in a language in general use and in the local language. Also required is education of the public in the laws of copyright.

3.221 Development of national authorship and creativity cannot be set in motion without guarantees to the author of adequate remuneration for his efforts, to enable him to devote his time and attention fully to the need for producing educational material. Copyright protection involves ensuring not only payment of attractive and reasonable royalties to the authors, but also suitable protection for publishers, for the opportunity available to an author to have his works disseminated depends equally on the laws protecting publishers. Protection of authors and creators both nationally and internationally calls for adequate legislation.

3.222 Developing countries may need to introduce such legislation also in order to protect the traditional manifestations of their culture which are the expression of their national identity. Once the law has been enacted, the infrastructure for its application has to be established.

The Development Cooperation Program of WIPO

Introduction

3.223 WIPO's development cooperation aims to assist developing countries — including the least developed countries (LDCs), for which a special unit has been established in the WIPO Secretariat — to attain levels of socio-economic development through their intellectual property systems, which enable them to enter into effective partnership with more developed countries and generally to take their place in the world.

Objectives

3.224 The objectives of WIPO's cooperation for development program are achieved either directly, by providing legal, practical and administrative information, advice and training for governments and organizations in developing countries, or indirectly, by facilitating their contacts with public and private bodies worldwide which can also thus assist them.

3.225 The major objectives of the cooperation for development program are to assist developing countries in:

- the establishment of intellectual property systems which are modern and function well, with regard to legislation and administration, and with personnel adequately trained and using up-to-date equipment;
- the development of human resources, especially by the WIPO Worldwide Academy;
- the adoption of timely and informed policies to meet existing and new intellectual property challenges such as the preservation, conservation and dissemination of biological diversity, the use of traditional knowledge to benefit the holders of it, the improved protection of expressions of folklore and the implications of electronic commerce;
- the promotion of cooperation among developing countries, in particular by the use of the WIPO Global Information Network (WIPONET), in order to pool all available useful technological information resources at sub-regional and regional levels;
- the development and adjustment of information technology, in both its legal and practical aspects, to harmonize and enhance its intellectual property application worldwide.

3.226 The creation and use of intellectual property through the setting up of innovation support structures and technology transfer.

3.227 In order to carry out activities to fulfil these aims, WIPO undertakes projects and activities tailored to the needs of particular groups of developing countries.

3.228 A single Permanent Committee on Cooperation for Development Related to Intellectual Property was established in 1999, to direct Permanent Programs in the fields of both industrial property and copyright and related rights. Its membership is open to any Member State of WIPO, as well as to intergovernmental and non-governmental organizations with observer status.

3.229 The Permanent Committee is a forum for debating policy and practice in intellectual property matters of particular concern to developing countries. It has focused on all the new challenges described above (see at the beginning of this chapter the section on the Objectives of Developing Countries). Its sessions have especially reviewed WIPO's newer initiatives to help developing countries to meet those challenges: the major subjects of discussion have been, among other things, the development of human resources in the context of the work of WIPO's Worldwide Academy, assistance to the Least Developed Countries (LDCs), the promotion and development of collective management of copyright and related rights (notably in connection with the development of a regional system), the promotion of innovation in all fields of intellectual property to stimulate economic growth and culture, new approaches to traditional knowledge, genetic resources and folklore and, in support of all these and other activities, measures required to enable developing countries to benefit fully from the latest information technology. The Permanent Committee will continue to meet biennially.

Development Cooperation in Relation to Intellectual Property

3.230 WIPO's development cooperation activities in the field of intellectual property are aimed at helping developing countries in the following respects:

- training of government officials and representatives of the private sector, such as lawyers, agents and staff of collective management organizations working in the fields of copyright and related rights;
- providing legal advice and assistance in drafting new, or revising existing, intellectual property legislation;
- establishing or strengthening intellectual property offices and other related institutions;
- promoting indigenous innovative, inventive and creative activities;
- using the technological information contained in patent documents;
- establishing programs for legislators and the judiciary;
- promoting awareness of intellectual property protection in local enterprises and educational institutions.

Training

3.231 WIPO's training program consists of various regular general and specialized courses organized each year, in a number of developed and developing countries, for the collective training of government officials and others, and periodical seminars, workshops and other types of meeting at national, sub-regional and regional level in which government officials and other personnel from developing countries participate. In addition, government officials are attached to intellectual property offices and other institutions in developed or developing countries for practical training, and middle and senior level officials are sent on observation visits to such offices. WIPO also organizes on-the-job training in some countries by international experts. The level of training ranges from basic, introductory courses to refresher or specialization courses for officials in responsible positions in intellectual property administrations.

3.232 Training programs have been extended to other categories of beneficiaries, in addition to the government officials working in the national intellectual property administrations. These categories include private lawyers and practitioners, staff of research and development institutions, of enterprises and of collective management organizations, representatives of the judiciary, officials of enforcement agencies such as police and customs, of ministries of trade and foreign affairs and other persons dealing with questions related to intellectual property matters.

3.233 It is also desirable that the teaching of intellectual property law should be developed in a number of universities in developing countries. The International Bureau has already awarded fellowships for this purpose to university teachers from developing countries to enable such personnel to examine the course and curriculum content in order to introduce or strengthen teaching at the university level. This means a more intensive involvement in the training of trainers.

3.234 The aim of the training activities is to enable government officials and other personnel from developing countries to acquire knowledge and practice in the various aspects of intellectual property, so that they may effectively organize and administer the intellectual property system of their own countries. Training activities occupy a preeminent place within WIPO's development cooperation program because laws and institutions, however good they may be, are of little use without qualified staff to administer them.

Legal Advice and Assistance

3.235 In recent years, there have been many instances of a growing interest, on the part of governments of developing countries in various parts of the world, in making intellectual property an effective tool in the development process. The existence of intellectual property laws suited to the needs of the country concerned is a precondition of an effective intellectual property system.

3.236 For this reason, WIPO has received many requests for advice in drafting intellectual property laws where they do not exist, and in revising existing laws that are inadequate for the country's economic needs and priorities. In addition, adherence to international treaties oblige countries to adapt their legislation in order to meet the protection requirements established in those treaties.

3.237 At the request of a government, WIPO comments on draft legislation prepared by the government or prepares draft legislation with due regard to the wishes of the government and the needs of the country concerned. Those wishes and needs would have been ascertained through consultations and surveys made on the spot by WIPO experts. The draft texts are then submitted to the authorities for study and comment. What follows is often an exchange of letters and visits between the authorities and WIPO experts to clarify and improve the texts.

3.238 Legal assistance is provided by the International Bureau of WIPO in two forms — the drafting of model laws and assistance in the drafting of national legislation. The International Bureau has already drawn up a number of model laws for the use of developing countries. These texts are prepared by meetings of experts from developing countries and developed countries, working on the basis of drafts prepared by the International Bureau and, in all cases, submitted to the States for their comments and subsequently adopted by meetings of governmental experts.

3.239 In addition, WIPO has produced model laws or guides for developing countries dealing with such subjects as patents, trademarks, industrial designs and industrial property licensing, copyright and related rights, the implementation of treaties, the implementation of licensing procedures for translation and reproduction licensing under the Berne Convention, and the protection of traditional knowledge and expressions of folklore.

Institutional Assistance

3.240 A law is not an end in itself for the country concerned. It provides an important framework within which its industrial property system will function. The law must be administered and used, and for that purpose suitable administrative machinery and procedures are required.

3.241 Here again, WIPO has considerable expertise to offer governments and institutions. WIPO experts are sent, at the request of countries, in order to give on-the-spot advice, on such matters as the establishment, streamlining and automation of procedures, preparation of organigrams, acquisition of appropriate equipment including computer hardware and software, acquisition of the required technical documentation, establishment of links with external institutions, assessment of staff requirements and training needs, utilization of office space and the determination of suitable fee schedules. In the copyright and related rights fields, WIPO has paid special attention to the establishment and reinforcement of collective management systems, which undertake the safeguarding of the rights and interests of authors, composers and performers, and the collection and distribution of their royalties, and which also contribute to the promotion of education and culture, as well as assisting in participation in international cultural exchange.

3.242 Often, such administrative improvements and changes are planned, for implementation over a period of time, by WIPO in consultation with the authorities concerned, depending on priorities and available resources.

3.243 For an intellectual property administration system to be useful, it must serve the public. In many countries, the intellectual property system has not been used to full advantage partly because the public, including creators and business circles, are unaware of the advantages the system has to offer and its role in the development process. WIPO therefore organizes meetings which aim at building, to start with, awareness of intellectual property by answering such basic questions as what is intellectual property, what are its constituent elements, how does intellectual property help trade, technological development and cultural development, and how to use and protect intellectual property rights at the national level?

Promotion of Indigenous Creativity, Innovation and Inventiveness

3.244 As observed earlier, the role that the intellectual property system can play in technological, economic and cultural development has long been recognized in developing countries. The protection afforded by intellectual property laws results in more creations, innovations and inventions, more investment and effort in research and development (R&D) in technical fields, leading to technological improvements, and thereby to improvement in the quality of industrial output, and by greater access to creations of foreign origin, in an educational and cultural climate that promotes development in general.

3.245 Without a national intellectual property system, it is difficult for a country to stimulate and protect the results of indigenous creativity and innovation. Governments can, with the help of WIPO experts, devise ways and means of encouraging local entrepreneurs and enterprises, the creation of national associations in the field, the provision of legal advice on protection procedures, financial support and incentives, public recognition of creators and inventors, the award of prizes through competitions, etc. Through mass participation in nationwide events and competitions, and in clubs in schools, public consciousness and use of the intellectual property system is stimulated. One example is that since 1979, WIPO has established an award for inventors and innovators that is widely used by developing countries to encourage inventive activity.

3.246 Following this, since 2001 two new Awards were added to the Awards program. First, the WIPO Creativity Award gave due recognition to individuals or groups of individuals whose creativity, artistic skills and imagination have resulted in original works, performances or productions connected with the field of copyright and related rights, including original works developed and used in the digital environment and related fields. There is also the WIPO Trophy for Innovative Enterprises, which encourages enterprises and companies in all Member States to actively use the intellectual property system in their production and commercial activities.

Use of Patent Information

3.247 One of the activities of WIPO in assisting the development process in developing countries is directed at improving access by those countries to the technological information contained in patent documents, by the provision of the necessary patent documentation and training in methods of retrieval and dissemination.

3.248 A program, now called the WIPO Patent Information Services for Developing Countries, began in 1975. Its aim is to provide free-of-charge patent information services to institutions in developing countries under agreements concluded between the International Bureau of WIPO and

contributing industrial property offices in some 20 countries (both industrialized and developing countries).

3.249 WIPO gives assistance and advice, and is the executing agency for several UNDP projects, concerning the planning and establishment of patent information and documentation centers which serve the needs of national or regional institutions in developing countries. Such centers may be created within an existing or planned industrial property office, or within a scientific and technological information center.

Programs for Legislators and the Judiciary

3.250 WIPO cooperates in promoting the exchange of experience and other information among legislators so that they are better prepared to consider the needs of their own countries, and find solutions to such needs, when engaged in the adaptation of their intellectual property legislations to the changing economic and technological situation, both on the domestic level and in international relations. This cooperation may take the form of national and regional seminars and study trips.

3.251 In addition, WIPO works to promote the exchange of experience and information among members of the judicial branch (judges of courts of all levels) so that they are better prepared to interpret and apply domestic laws and international treaties in the field of intellectual property law and to order measures that would prevent the continuation of infringement of intellectual property rights. Such cooperation may also take the form of national and regional seminars, simulated trials and study trips.

Promotion of Awareness in Local Enterprises and Educational Institutions

3.252 It is increasingly recognized that efficient use of the intellectual property protection system can significantly contribute to economic growth. The Small and Medium-Sized Enterprises (SMEs) Division, established in October 2000 following unanimous support by WIPO's General Assembly, seeks to raise awareness of the relevance of intellectual property for small business and promotes initiatives to make the intellectual property system more accessible, less cumbersome and more affordable for SMEs.

3.253 The activities carried out by the SMEs Division of WIPO recognize the important role played by such enterprises in strengthening the economic wellbeing of a country. Research has shown that SMEs can and should contribute considerably to employment creation and trade, which ultimately promote economic growth. It has also been shown that, given the opportunity, SMEs are innovative and competitive. However, SMEs need to be encouraged to take full advantage of the existing intellectual property protection system in order to compete more successfully in the global economy.

3.254 One of the priorities of this program is to raise awareness of the potential benefits for SMEs so that they effectively use this system. The awareness-building activities are for government institutions responsible for SMEs, other institutions supporting SMEs and, through information made available on the Internet, for SMEs themselves. These include international, regional and national seminars organized by WIPO, distance learning courses offered by the WIPO Worldwide Academy and joint activities in cooperation with other international or regional organizations or institutions which deal with matters concerning SMEs.

3.255 WIPO has already been active in raising awareness of the value of the intellectual property system in higher education, through cooperation activities with universities and similar institutions

to include intellectual property in teaching programs. A number of cooperation agreements have been concluded with universities and regional training centers towards this aim (see under the WIPO Academy below).

The WIPO Worldwide Academy

3.256 The WIPO Worldwide Academy (WWA) was established in March 1998. It is WIPO's central coordinating institution for human resources development. The overall objective of the Academy is to serve as an educational institution providing teaching, training and research services in intellectual property, particularly for developing countries. In order to meet its objectives, the Academy carries out its programs both at its Headquarters in Geneva, and in different parts of the world, and cooperates with several academic institutions and intellectual property offices.

3.257 Owing to the rising level of activities related to intellectual property in member countries, the demand for tailor-made programs has continued to increase steadily. In response, the Academy expanded the scope of its training programs in 2000 to include courses and seminars on the legislative, administrative and enforcement aspects of intellectual property systems.

3.258 The programs of the WWA comprise three main categories, namely, Professional Training, Policy Training and Distance Learning.

3.259 The *Professional Training Program* offers intermediate and advanced training courses for managers and technical staff of intellectual property offices and other professional users of the system. These courses are not only for persons working in intellectual property offices, but also for those involved with research work in universities and Research and Development (R&D) institutions, as well as for those in chambers of commerce and industry.

3.260 Under the *Policy Training Program*, the Academy organizes sessions for decision-makers, policy advisers, development managers, diplomats and other groups, to promote policy debate and a deeper understanding of the practical implications of the intellectual property system. These sessions are also designed to provide a forum for sharing information and exchanging views on the experience of other countries in using the intellectual property system as a tool for development. In addition, special Academy sessions are organized for specific interest groups and also to deal with special or topical issues, such as strengthening the teaching of intellectual property for professors and the enforcement of intellectual property rights for the judiciary.

3.261 The *Distance Learning Program* is an advance in teaching methodology, with the attendant advantages of flexibility of time and space, cost effectiveness and the capacity to reach the unreached. Distance learning courses are a complement to traditional training methods, as well as a means of increasing the range of training beneficiaries. These courses are delivered via the Internet, using a format that allows for online registration, student-teacher interaction, student tests and course monitoring and evaluation systems. In addition to a General Course on Intellectual Property, five specialized advanced distance learning courses which focus on specific aspects of intellectual property are to be launched.

3.262 The Academy also organizes diploma programs on intellectual property law in cooperation with universities and other institutions, such as an intellectual property law program with the University of South Africa (South Africa), a Master Course joint degree on intellectual property with the University of Turin (Italy) and the qualification of Master of Intellectual Property Law and Human

Rights with the Raoul Wallenberg Institute of Human Rights and Humanitarian Law, University of Lund (Sweden).

3.263 The WWA works closely with the WIPO Knowledge Management Center and e-Library. That Center is the catalyst of WIPO's knowledge management initiatives and incorporates the WIPO Library, which specializes in intellectual property matters and is designed to support the research and information needs of WIPO and UPOV staff, students of the WWA and external researchers. It has approximately 35,000 monographs and nearly 300 periodicals. Its collection is enriched by a number of electronic journals and electronic books and is completed by electronic resources (most of them acquired under a United Nations inter-agency consortium agreement). Databases like Proquest, Oxford Reference, Britannica Online and Lexis-Nexis are available through the reading room services of the Library.

