

TRANSFER OF TECHNOLOGY AGREEMENT IN INTERNATIONAL BUSINESS

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ABSTRACT

International transfer of technology plays a key role in the industrial development of any nations. Efficiency and growth are promoted by the rapidity with which new knowledge and new technologies are disseminated. To make transfer of technology a meaning and successful process special emphasis has to be paid to the various policy issues involved in such transfer, choice of right business model and proper agreement drafting. This paper attempts to discuss various facets of and issues involved in transfer of technology agreement with special reference to the drafting of such agreements.

INTRODUCTION

“The broad and rapid diffusion of new and superior knowledge is good for social wellbeing. Efficiency and growth are promoted by the rapidity with which new knowledge and new technologies are disseminated: the greater the proportion of individuals, firms or countries making use of superior products and processes and the sooner they do so, rather than being restricted to inferior substitutes, the more widespread and substantial the growth benefits should be.”

-Dominique Foray

The level of technological development determines the status of the nation and its potential for human development. Such technological advancement can be achieved in two ways. Firstly, through own research by engaging in broad based R&D work. And secondly, the more recent one is by purchasing or acquiring technology from domestic or foreign developers. The later comes under the ambit of transfer of technology through a transfer of technology agreements.

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The idea of transfer of technology stems from two potent reasons. First, it comes as an attempt to bring about equality in the technological dissemination from a wider human development perspective. In the same way as attempt to bring about equality in distribution of wealth and resources has come. Secondly, it is used for commercial exploitation purpose, so that the developer of the technology could have commercial advantage out of it. This kind of transfer is called as the commercial transfer of technology which shall be the area of the present work.

International technology transfer is now being recognised as having played an important part in the industrial development of the slow industrially developed and under developed nations. Because of immense importance of technology in nations' growth and development, transfer of technology has become one of the highly discussed areas of international business transactions in past century.

CONCEPTUAL FRAMEWORK OF TECHNOLOGY TRANSFER

Transfer of technology, as the expression itself connotes, means the conveyance of the technology from one entity to another. Such transfer could be commercial or non-commercial in nature. Commercial transfer has its overall objective the making of profit out of the technological development. Whereas, non-commercial technology transfer are not strictly for commercial pursuits. It is mostly done at governmental level and commonly figures in international cooperation agreements between developed and developing nations.² Such agreements may relate to infrastructure or agricultural development, or to international cooperation in the fields of research, education, employment or transport.³

Another distinction as regard to technology transfer could be made in form of vertical and horizontal transfer of technology.⁴ 'Vertical technology transfer represents a flow from laboratory research through developmental stages and ultimately to commercialization. Horizontal technology transfer is essentially the transfer of established technology from one

² UNCTAD Series on Issues in International Investment Agreements, 2001 – Transfer Of Technology.

³ Blakeney, M.(1989). *Legal Aspects of Technology Transfer to Developing Countries* (Oxford: ESC Publishing).

⁴ Bruijn Erik J. and Steenhuis Harm-Jan, "INTERNATIONAL TECHNOLOGY TRANSFER: BUILDING THEORY FROM A MULTIPLE CASE-STUDY IN THE AIRCRAFT INDUSTRY" Academy of Management Annual Meeting: A new vision of management in the 21st century, Honolulu, 2005, no. 1360.

operational environment to another.⁵ Vertical technology transfer is generally originates from individuals researchers, research institutions such as in universities and colleges, research laboratories, non-profit organisations and government agencies performing scientific research and development.

There are two reasons for vertical transfer of technology. Firstly, these research entities usually find it difficult to commercially exploit their discoveries and invention for profits as they have no approach to market in a way as commercial enterprise possesses. They lack means for marketing, manufacturing and distribution. Secondly, they have less scope for further developing their research to an extent that it could be straightforward manufactured and sold in the marketplace.

DEFINITION

On definitional aspect technology transfer involves two concepts i.e. ‘technology’ and ‘technology transfer’. Technology means systematic use of knowledge. In legal sense it includes all forms of commercially usable knowledge, whether patented or unpatented, which forms the subject matter of a transfer transaction. And thus technology transfer would be mean transfer of all forms of knowledge through an agreement between companies or states.

UNCTAD Draft Transfer of Technology Code (draft TOT code) defines “**technology**” as “systematic knowledge for the manufacture of a product, for the application of a process or for the rendering of a service”.⁶ On similar lines, Draft TOT code defines “**Transfer of Technology**” as “the transfer of systematic knowledge for the manufacture of a product, for the application of a process or for the rendering of a service and does not extend to the transactions involving the mere sale or mere lease of goods.”⁷

It may include following technology transfer transactions:

(a) The assignment, sale and licensing of all forms of industrial property, except for trademarks, service marks and trade names when they are not part of transfer of technology transactions;

⁵ Ramanathan, K. 1994. The polytrophic components of manufacturing technology. *Technological Forecasting and Social Change*, 46: 221-258.

⁶ UNCTAD Draft Transfer of Technology Code, 1985 Chapter 1 Para 1.2.

⁷ Ibid.

(b) The provision of know-how and technical expertise in the form of feasibility studies, plans, diagrams, models, instructions, guides, formulae, basic or detailed engineering designs, specifications and equipment for training, services involving technical advisory and managerial personnel, and personnel training;

(c) The provision of technological knowledge necessary for the installation, operation and functioning of plant and equipment, and turnkey projects;

(d) The provision of technological knowledge necessary to acquire, install and use machinery, equipment, intermediate goods and/or raw materials which have been acquired by purchase, lease or other means;

(e) The provision of technological contents of industrial and technical co-operation arrangements.⁸

BUSINESS MODELS FOR TECHNOLOGY TRANSFER

There are end numbers of business models on the basis of which technology transfer transactions can be achieved. Each such model has its own unique importance and characteristic suiting to a particular need and intention of the parties. However, the basic purpose of all such agreements is to transfer or grant by the developer to the recipient of technology certain rights and privileges to exploit the technology commercially.

Some of the most frequently used business models for technology transfer are as follows:

1. Outright sale and assignment agreement.
2. Patent licensing agreement
3. R& D Contracts.
4. Joint Ventures.
5. Corporate Partnership agreement.
6. Marketing and distribution agreements.

Amongst the abovementioned agreements sale & assignment agreement and patent licensing agreement are most commonly used technology transfer vehicle.

⁸ Ibid at Para 1.3.

Sale agreement as business model for technology transfer is a simplest and straightforward way to convey ownership rights to new technology and can be structured to include almost any type of financial terms, from lump-sum compensation arrangements to royalties and other fees, such as milestone payments. The primary disadvantage of such kind of technology transfer is the developer's incapacity to control or have any say in assignee's development and commercialisation activities. Further, owner is also incapable to reacquire the ownership rights to the technology in any situation except repurchase\, which is also a difficult task to undertake from an uncooperative transferee.⁹ However the best suited model for technology is technology licensing agreement or patent licensing agreement.

TECHNOLOGY LICENSING AGREEMENT

Technology licensing agreement is the most common business model for technology transfer. It is a form of an agreement which defines the mutual rights and obligations of the developer or the transferor of the technology and the recipient of the technology. Licensing agreement is an important method for the transfer of technology and knowhow between independent firms. Parent companies and wholly or partially owned subsidiaries. And joint ventures between privates and public firms. These arrangements which are in effect contracts, defines the terms of a transaction between a licensor and the licensee.¹⁰ Unlike outright patent sale agreement, technology transfer agreement is more advantageous because it does not grant any ownership rights to the recipient of the technology. Whatever rights which are granted under technology transfer agreement are limited and controlled by the agreement. In such kind of agreement, the developer has much share in the further exploitation of the technology.

Generally, patent licensing agreement is of two kinds¹¹:

i. NON-EXCLUSIVE TECHNOLOGY LICENSE AGREEMENT

Most of the technology license agreement is drafted as a non-exclusive agreement. In such kind of agreements the recipient is granted a non-exclusive right to exploit the technology with the right reserved to developer to further convey the technology to other entities.

⁹ Lennon , Michael J. "Technology transfer Guide" 2001 Edition.

¹⁰ Bruce A. Larson and Margot Anderson "Technology Transfer, Licensing Contracts and Incentives for Innovation" Oxford Journals: Oxford University Press, 1994.

¹¹ See for details Lennon , Michael J. "Technology transfer Guide" 2001 Edition.

The crux of Non-exclusive Technology License Agreement is the fact that the same technology could be transferred to more than one person. Like a ordinary agreement, Non-exclusive Technology License Agreement grants to the licensee the right to make , have made, use and sell the patented technology , either with or without the right to sublicense.

ii. EXCLUSIVE TECHNOLOGY LICENSE AGREEMENT

Unlike non- exclusive Technology License Agreement, exclusive Technology License Agreement grants to the licensee exclusive rights to use and exploit the technology in exclusion of other. In such kind of technology transfer, restriction is imposed on the parties to further transfer the technology to any other entity till the validity of the agreement. An exclusive Technology License Agreement provides broadest right to the licensee but in terms of sublicensing and further conveyance it is much more restrictive.

POLICY ISSUES IN TRANSFER OF TECHNOLOGY

In regard to transfer of technology there are certain legal and policy issues which have to be addressed before technology can be effectively transferred and utilised. These issues are encountered both at international level and at domestic level by municipal governments which help in making technology transfer meaningful. Some of such issues are issues concerning intellectual property right protection, competition law issues, business models or technology transfer vehicles, issues relating to encouragement of technology transfer from developed to developing countries, host country technology related issues, etc.

Effective redressal of these issues could only make the technology transfer useful and beneficial to developer as well as the recipient of the technology. At the domestic level, for redressal of these issues countries have used a variety of policy instruments to influence and strengthen the generation, transfer and diffusion of technology.¹² However, such regime is at very rudimentary stage at international level.

Some of these policies issues are discussed briefly as under:

¹² Omer, Assad (2001). "An overview of legislative changes", in S. J. Patel, P. Roffe and A. Yusuf (eds.), *International Technology Transfer: The Origins and Aftermath of the United Nations Negotiations on a Draft Code of Conduct* (London, The Hague and Boston: Kluwer Law International).

i. TREATMENT OF INTELLECTUAL PROPERTY OF DEVELOPER

Prime issue which arise in technology transfer is the issue concerning the proprietary right of the developer of the technology. Developer who has invented the new technology which is the subject of transfer must have certain protection regarding his intellectual property. This protection comes through legal regimes concerning Intellectual Property Rights.

- Developer's right on the technology subject to the transfer

Ownership right of developer of the technology is the prime focus of protection in technology transfer agreement. Generally the technology transfer agreement defines the ownership right on the technology and the relationship that exists between the licensor and the licensee. IPR regime tends to protect the intellectual property of the transferor by providing him various rights like patents, copyright, trade secrets etc.; which are generally the rights which are licensed in technology transfer agreements. Patents protect the developer of new devices and processes form unauthorised use by others. Similarly, copy right and trade secrets protect rights in original work of authorship and proprietary technology respectively.

For smoother flow of technology both within and without the nation boundaries it is desirable that community of nations should have their respective IPR regimes. As IPR regimes have been the classical policy instruments to influence the generation, transfer and diffusion of technology and international rule-making has preponderantly focused on the protection of IPRs. International rule-making in this field has a long-standing tradition.¹³ Further it is required that domestic laws relating to IPR should not be in contradiction with internationally acceptable IPR regimes. This is could be achieved by harmonising national law with international jurisprudence. Such harmonisation is required to facilitate easier movement of technology across nation's boundary.

As pointed by UNCTAD working paper on Transfer of technology¹⁴:

It has mainly centred on avoiding or lessening the consequences arising from disparities among domestic intellectual property laws as to the formal and substantial requirements of protection through basic principles aimed at:

¹³ Supra note no.2.

¹⁴ Supra note no.01 at page 18.

- Avoiding discrimination towards foreigners as regards IPR protection; and
- Attenuating the territorial character of IPRs which obliges enterprises willing to expand operations to foreign countries to seek protection in each of them on the basis of differing formal and substantive requirements and procedures.

ii. ENCOURAGING TECHNOLOGY TRANSFER

Till recently, encouragement and facilitation of technology from industrially advanced countries to the under developed countries has risen as a policy issue at international level. Legal mandate for the purpose of encouraging technology transfer comes from TRIPS Agreement includes a number of specific provisions in this regard. Most notable in this regard is Article 66.2 requires developed countries to provide incentives for to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to LDCs in order to enable them to create a sound and viable technological.

In this regard, the draft UNCTAD Code of Conduct on the Transfer of Technology addressed the issue from various perspectives: the legitimization of specific domestic policies to promote the transfer and diffusion of technology; rules governing the contractual conditions of transfer of technology transactions; special measures on differential treatment for developing countries; and measures that would strengthen international cooperation. Further UNCTAD in collaboration with ICTSD (International Centre for Trade and Sustainable development) prepared a report and put forward number of policy issues for promoting transfer of technology.¹⁵

This report reviews comprehensively the basic theory and evidence regarding how intellectual property protection affects incentives for international technology transfer (ITT). Analysis is provided of market-mediated ITT through trade, foreign direct investment, licensing, and personnel movements, along with informal means through imitation, reverse engineering, and spillovers. Similarly for promoting technology transfer, major theme of discussion in 2002 World Summit on Sustainable Development (WSSD) where technology transfer from industrialised to developing countries emerged as an important issue.

¹⁵ See report "UNCTAD-ICTSD Project on IPRs and Sustainable Development- Encouraging International Technology Transfer"; Issue Paper No. 7. UNCTAD-ICTSD 2004.

DRAFTING OF INTERNATIONAL TRANSFER OF TECHNOLOGY AGREEMENTS

Drafting of international transfer of technology agreements, like other international agreements, is a difficult exercise as it involves various issues which have its implication for long period of time. Therefore special emphasises has to be paid to drafting of such contracts. And care has to be paid to avoid any sort of word or clause ambiguity that lead to conflict or brings about loopholes in the mutual commitments. A contract produces number of legal effects. The negotiations that precede the parties' agreement may give rise to obligations and, by engaging in those negotiations, potential partners may lose part of their freedom of action and may have to comply with certain behavioural standards. This is true, in particular, when the contract relates to a complex and wide reaching operations¹⁶. International transfer of technology agreements is one of such contract.

In drafting a contract there are certain provisions which should be mandatorily incorporated and met into the structure of the contract. Such provision should be very clear and unambiguous as they constitute heart and soul of a contract. Some of such vital contracts terms and provisions which are very important to international transfer of technology contracts are listed below. Further as a word of caution, there is no such thing as a single "model", "miracle" or "all purpose" clause appropriate for all occasions.¹⁷ Each clause should be carefully tailored to the exigencies of a given situation, taking into account the likely types of disputes, the needs of the parties' relationship and the applicable laws.¹⁸

i. BACKGROUND AND RECITAL CLAUSES

Background and recital clauses are the opening clauses of a licensing agreement which provides for the identity of the parties and manifest the basic purpose or the intention with

¹⁶ Marcel Fontaine and Filip De Ly, *"Drafting of International Contracts- An Analysis of Contract Clauses"* Martinus Nijhoff Publications; Leiden: Boston 2009

¹⁷ Stephen Bond, How to Draft an Arbitration Clause (Revisited), 1 ICC Int'l Ct. Arb. Bull. 14 (Dec. 1990). As mentioned in R. Doak Bishop King & Spalding, "A PRACTICAL GUIDE FOR DRAFTING INTERNATIONAL ARBITRATION CLAUSES": Texas

¹⁸ R. Doak Bishop King & Spalding, "A PRACTICAL GUIDE FOR DRAFTING INTERNATIONAL ARBITRATION CLAUSES": Texas

which parties entered into agreements. The parties to a contracts use recitals to set out a series of statement that they regard useful before approaching the body of the contracts.¹⁹

The recitals generally includes statements introducing the parties, licensor's area of expertise and experience in relation to the subject matter of the agreement, licensee needs and purpose for acquiring the technology, intentions as they relate to the licensing and their intention to be bound by the terms of the agreement.

Sample Background and recital clause:

“This Exclusive Technology Licensing Agreement (herein after called as Agreement), effective as of__ _____, 2012 is entered into by and between LICENSOR, _____Nanotech research institute having principal office in Turkey, and LICENSEE, _____Railway Wagon Industries.

WHEREFORE, LICENSOR is specialised nanotechnology research institute based in Turkey. It has developed innovative anticorrosion and fire retardant coatings and polymers based on a proprietary nanotechnology. Such technology is first of its kind; it's cost effective and guarantees cent percent protection from all kind and level of corrosion or fire.

AND WHEREFORE, LICENSOR wished to commercially exploit its technical achievement by licensing the technology to LICENSEE based in Russia....Such licensing is for a term and as per conditions prescribed in this contract.

AND WHEREFORE, with this purpose in LICENSOR has approached LICENSEE... LICENSEE is international player in railway wagon design and has great potential to commercially exploit the technology.

¹⁹ Supra note no. 14 at page 59

NOW, THEREFORE, LICENSOR and LICENSEE in consideration of the premises and the terms and the condition herein provided agree as follows:-

.....

.....

.....²⁰

ii. DEFINITION AND INTERPRETATION CLAUSE

The basic purpose of definition and interpretation clause is to bring parties to a mutually agreement upon meaning to certain contract terms, so as to avoid any future contradiction as to the meaning and interpretation of any contract term. Accordingly, definition of the important terms used in the agreement should necessarily be provided with clarity, brevity and precision. The terms to be defined in this clause essentially depend upon the nature and the type of the contract entered into. However, there are certain terms in international commercial contracts which has been standardised to a large extend and they apply uniformly to all business types. Such contracts terms are called as *boilerplate clauses*.

Boilerplate clauses are those clauses which are copied from one contract to another not only within the same company or law firm but also across the legal profession and across borders.²¹

iii. CHOICE OF LANGUAGE

Choice of language generally figures in those contracts where parties have different national language or language of commerce. In such case it's quintessential that the authoritative language/s should be decided before hand. It is possible to have drawn a contract in more than one language but it more often than not lead to confusion in interpretation.

²⁰ For more international commercial contract samples refer to:- Morton Moskin(Ed.) Commercial Contracts – Strategies for Drafting and Negotiations. ASPEN Publications 2005 ; and Dennis Campbell and Reinhard Proksch, "International Business Transactions- Commentary Forms and Documents " Kluwer Law International 2005

²¹ Supra note no.15 at pg.104

So it is desirable to choose an authoritative contract language at the time of contract negotiations. In choosing the language of the contract consideration has to be paid to the 'choice of law clause', 'jurisdiction clause' etc.

iv. REPRESENTATIONS AND WARRANTIES

Representations and warranties clause is a declaration from the party conveying the technology that is free from any liens, security interest or any other encumbrances. And the licensor under the provision of the contracts is the rightful owner of the licensed technology.

Typically, the licensor will represent and warrant that all technical information delivered by the licensor under the provision of the agreement is accurate and complete; that the licensor has the power and authority to execute, deliver, and perform its obligations under the agreement and that all licensed patents and patent applications under which rights have been granted has been secured.²²

Further it is also possible to include an Indemnity Clause from the licensor to secure a situation of breach in regard to the Representations and Warranties or where it is found to have been falsely made.

SAMPLE REPRESENTATIONS AND WARRANTIES CLAUSE

LICENSOR hereby warrants and represents to LICENSEE following:

- a. LICENSOR has full legal right, power and authority to execute, deliver and perform its respective obligations under this agreement.
- b. The execution, delivery and performance by LICENSOR of this agreement does not contravene or constitute a default under any provision of law applicable or of any agreement, judgement, order, injunction or other instruments.
- c. All licenses, consents, authorization and approvals, if any, required for the execution, delivery and performance by the LICENSOR of this agreement have been obtained.

²² See supra note no.8

- d. LICENSOR is the exclusive owner of the licensed technology and such ownership is free from all kinds of encumbrances.
- e. This Agreement constitutes a valid and binding agreement of LCENSOR, enforceable against LICENSOR, in accordance with its terms and applicable law.²³

Representations and Warranties clause occupies a very important position in international transfer of technology contracts. Generally, it is advised that in case licensor refuses to give warranties, licensee should reconsider entering into contract with him.

v. FINANCIAL OR PAYMENT AND ROYALTY CLAUSES

Generally technology is transferred by developer with the intention of commercially exploiting his innovation. The developer of the technology relinquishes the possession of it with the expectation of a potential income that may be generated through the license consideration. Similarly, in cases where technology is licensed by a university or research institutes or by an individual wherefore along with the commercial exploitation, investment in R& D for further development of the technology is also motive, financial provisions are important. Under such situations purpose of the transfer is usually to shift the financial burden for further development of technology from licensor to licensee.

Therefore, because of these reasons proper drafting of financial clauses is quintessential for a meaning transfer of technology. Such provisions should be drafted taking into consideration all relevant facts and situations. Some of the important financial terms included under international technology licensing agreements are discussed below:

- a. License Issue Fee and Up- Front Payment Clauses
- b. Equity Ownership and Other Secondary Payment Provision
- c. Term Payment Clauses
- d. Royalty Clauses

License issuance fee and up-front payments are the initial most consideration payment made after the conclusion of the technology transfer agreement. License issuance fee is the

²³ Morton Moskin(Ed.) Commercial Contracts – Strategies for Drafting and Negotiations. ASPEN Publications 2005 at page 20.11 (vol.2)

lump sum amount of money paid by the recipient (licensee) of the technology to the developer (Licensor). Such license issuance fee can be aggregate sum or can be separate license fees paid for the different technology- for instance, one license issue fees for commercialisation rights of hardware and another issuance fee for the related software.²⁴

License fee and up-front payment is generally decided by licensor taking into consideration all cost and labour he has to incur for the development of the technology and his potential profit expectations. Further, commercial feasibility and potential demand for the technology in market is also taken into consideration. License Issue Fee and Up- Front Payment are generally lump sum and onetime payment for the technology transferred. Other than it licensor can include such kinds of payment clauses which go for a long period of time. These are Equity Ownership provisions, Term Payments and Royalty Payment.

Equity Ownership as the mode of consideration is used generally in cases where technology subject of transfer has a great market value and commercial potential. In such kind of provision allows the developer to enjoy the proceeds of technology for a period of time. In equity ownership, equity interest is created in favour of the licensor in the license or an entity to be created by the license. It is generally done by allotting specific shares in the name of the licensor.

Similarly in **Term Payment clause**, arrangement for payment of certain consideration periodically or on the happening of certain occurrence is determined. For example, licensor can incorporate a provision for annual payment of certain money or payment on certain occurrence like achievement of a milestone.

The final financial provision of the technology transfer agreement is the payment of **royalty provision**. This clause reflects the recognition that without the licensor's initial development work and the licensee's subsequent commercialisation efforts, no practical commercial application would have been possible.

In a technology transfer agreement any one or more of the above mentioned consideration or financial clauses can be used.

²⁴ See Michael J. Jackson "Technology Transfer Guide" Edition 2001 Aspen Law & Business

vi. CHOICE OF LAW OR GOVERNING LAW CLAUSE

Choice of law is the most controversial and complex clause in transfer of technology agreements. International transfer of technology agreements generally involves parties from diverse legal system governing the contrast. In such a situation it is imperative on the parties to decide upon the governing law in regard to the enforcement of the contracts along with the deciding upon the forum which has to be approached in a dispute arose. The governing law is important as it establishes the rules of interpretation, validity and performance of the agreement, as well as the consequences and corresponding obligations upon the breach of the agreement.

In case where parties could not agree on the governing law, such provision could be deliberately left over for the court to adjudicate upon. There are certain theories of how to determine the governing law of a contract in case where it is not specifically provided in the contracts.²⁵ Court generally considers these theories in the following order of priority for the purpose of determining the governing law:-

- a) Tacit or implied choice.
- b) Centre of gravity.
- c) Policy interest.
- d) Rigid presumptions, such as nationality or the law of the place of contracting or performance, and
- e) Law of the forum.

Tacit or implied choice - in case where no governing law is expressly chosen by the parties, court shall look in to the tacit expression of the parties as to governing law. Such tacit consent can be imputed by court from factors like language, reference to statues, choice of court or arbitration.

Centre of gravity - Under centre of gravity theory, proximate connection of the contract with the governing law is considered. And that nation's law is only applied with which the contract is most proximate. For determining proximity factors such as currency of payment,

²⁵ See Dennis Campbell and Reinhard Proksch,: "International Business Transactions- Commentary Forms and Documents " Kluwer Law International 2005 Chapter 12 A-9

location of the parties, place where contract was entered into, place of performance etc is considered.

On the same lines Article 4 of EC Draft Convention on Contractual Obligations of 1972 states that:

“In case where no express or implied choice, the contract shall be governed by the law of the State with which it is most closely connected.”

Policy Interests- under policy interests’ analysis, court determines the governing law on the basis of the policy need of a state. The state which has more pressing policy need as to the contract results, the law of that state is applied.

vii. PROVISION REGARDING FURTHER DEVELOPMENT AND COMMERCIAL EXPLOIT OF THE LICENSED TECHNOLOGY

Provision regarding further exploitation of technology generally figures in vertical transfer of technology where technology flows from laboratory or individual to an industry. Main motive behind such transfer is to commercially exploit technology together with further development and improvement of it. Accordingly sometime clause is included in the contract which obliges the licensee to have R & D for further improving the licensed technology, so that the commercial interest of the licensor could be adequately protected.

viii. TERM AND TERMINATION CLAUSE

Term and termination clause defines the length of time during which the contract will continue. A license agreement will state that the term will begin, and the obligation of the parties will take effect on its effective date and will continue until the date on which licensee’s obligations to pay royalties expires.²⁶

TRANSFER OF TECHNOLOGY AND LAW IN INDIA

²⁶ Lennon , Michael J. ”Technology transfer Guide” 2001 Edition at page 1-19

In India there is no specific statute dealing with the technology transfer and its regulations. However, Reserve Bank of India has promulgated certain policies regulating foreign technology transfer.²⁷

RBI policy on foreign technology transfer recognises two routes for technology transfer:-

i. Automatic route which does not require any prior approval.

RBI accords automatic approval to all industries for foreign technology collaboration agreements under which-

- The lump sum payments not exceeding US \$ 2 million ;
- Royalty payable being limited to 5 per cent for domestic sales and 8 percent for export, subjected to a total payment of 8 per cent on sales over 10 year period.

Payment of royalty up to 2 per cent for export and 1 per cent for domestic sales is allowed under automatic route on use of trademark and brand name of the foreign collaborator without technology transfer. In case of technology transfer, payment of royalty subsumes the payment of royalty for use of trademark and brand name of the foreign collaborators. Payment of royalty up to 8 per cent for export and 5 percent on domestic sales by wholly owned subsidiaries (WOS) to offshore parent companies is allowed under the automatic route without any restriction on the duration of royalty payments

ii. Government Route which requires approval

All proposals for foreign technology agreements not meeting the parameters for automatic approval are considered on merit by the Project Approval Board (PAB). This is chaired by the secretary, department of Industrial Policy and promotion, Ministry of Commerce and Industry.

Applications in respect of such proposals should be submitted in form FC/IL (SIA) to the secretariat for Industrial Assistance, Department of Industrial Policy Promotion, Ministry of Industry, Udyog Bhawan, New Delhi. No Fees is payable. Approvals are normally available within 4 weeks of filing the application.

²⁷ www.rbi.org.in/upload/ECM/docs/FTRBI.doc

MODEL TECHNOLOGY TRANSFER AGREEMENT

Given below is model Exclusive Technology Licensing Agreement for the licensing of innovative anticorrosion and fire retardant coatings and polymers proprietary nanotechnology.

MODEL EXCLUSIVE TECHNOLOGY LICENSING AGREEMENT

“This Exclusive Technology Licensing Agreement (herein after called as Agreement), effective as of__ _____, 2012 is entered into by and between LICENSOR, _____Nanotech research institute having principal office in Turkey, and LICENSEE, _____Railway Wagon Industries, based in Russia.

WHEREFORE, LICENSOR is specialised nanotechnology research institute based in Turkey. It has developed innovative anticorrosion and fire retardant coatings and polymers based on a proprietary nanotechnology (herein after referred to as TECHNOLOGY). Such technology is first of its kind; it’s cost effective and guarantees cent percent protection from all kind and level of corrosion or fire.

AND WHEREFORE, LICENSOR wished to commercially exploit its technical achievement by licensing the technology to LICENSEE based in Russia....Such licensing is for a term and as per conditions prescribed in this contract.

AND WHEREFORE, with this purpose in LICENSOR has approached LICENSEE... LICENSEE is international player in railway wagon design and has great potential to commercially exploit the technology.

NOW, THEREFORE, LICENSOR and LICENSEE in consideration of the premises and the terms and the condition herein provided agree as follows:-

.....

.....

.....²⁸

1. DEFINITION AND INTERPRETATION

In this agreement the expressions following have the meaning indicated below:

LICENSOR's Patent Right on the TECHNOLOGY shall mean all know-how, technical data, or other information of any kind regarding the design, manufacturing, operation, use or sale of any Licensed Product or other device for use in the fields and for the application specified herein.

.....

.....

[This section of the agreement contains the important terms of this transaction, which require precise definitions by the parties to avoid, for one reason or another, ambiguities]

2. GRANTS

Subject to the terms and condition of this AGREEMENT, LICENSOR hereby grants to LICENSEE an exclusive right and license, under the LICENSOR'S Patent Rights to make, use, and sell LICENSSED product all over the world around.

3. CHOICE OF LAW

The parties agree that this Agreement shall be deemed to have been executed and shall be subject to, enforceable and construed pursuant

²⁸ For more international commercial contract samples refer to:- Morton Moskin(Ed.) Commercial Contracts – Strategies for Drafting and Negotiations. ASPEN Publications 2005; and Dennis Campbell and Reinhard Proksch,: “International Business Transactions- Commentary Forms and Documents” Kluwer Law International 2005.

to the laws of _____ (Country) in which the principal office of _____ (name one of the parties to the Agreement) is located.

4. LICENSEE ISSUE FEE AND ROYALTIES

Under the terms of the AGREEMENT, LICENSEE shall be obliged to make following payments:-

- a. License Issue Fee- On the transfer of the TECHNOLOGY, LICENSEE shall be obliged to make one time lump sum payment of License Issue Fee which shall be US \$ Amount has to be transferred electronically to the account of the LICENSOR.
- b. Equity Ownership- On the transfer of the TECHNOLOGY, an equity interest shall be created in the name of LICENSOR. Such equity interest shall be of the value of US \$.....
- c. Royalty Payment- After the transfer of the TECHNOLOGY, LICENSOR shall be paid annual royalty payment of US \$.....

5. CHOICE OF LANGUAGE

Notwithstanding any translation of this Agreement, whether or not contemporaneous with the negotiation or execution of this Agreement, this (...language...) version of this Agreement shall exclusively control.

6. GOVERNING LAW

This AGREEMENT shall be governed by the law of the REPUBLIC OF TURKEY, except to the extent that TURKISH conflict of law would require the application of the law of another state or country.

7. REPRESENTATIONS AND WARRANTIES

LICENSOR represents warrants and covenants:

- a) That it is possessed of all patent rights, title and interest in the TECHNOLOGY and TECHNOLOGY documentation and other related materials and that it has the right to licence to LICENSEE in accordance with this Agreement ;
- b) That TECHNOLOGY is propriety to LICENSOR and does not infringe any copyrights, patents, trade secrets or other intellectual property rights of any third party
- c) That each of the knowhow concerning the TECHNOLOGY will be delivered, handed over, tested and accepted according to the Specifications and in a manner designed to cause minimal disruption to LICENSEE's normal business functions;
- d) That the TECHNOLOGY patent furnished to LICENSEE is free and clear of all liens, security interest, claims, charges and encumbrances

8. TERM AND TERMINATIONS

This AGREEMENT shall commence and be effective upon the execution hereof by the parties, and shall continue thereafter for an initial term of five years. Upon completion of the initial term of this agreement, LICENSEE may review this AGREEMENT and the rights grant hereunder for a second five year term upon six month's written notice given to LICENSOR, upon the approval and consent of LICENSOR.

Bankruptcy/ Insolvency/ Change of Ownership- if LICENSEE shall become bankrupt, or become insolvent, or files a petition for bankruptcy, and/ or if his business shall be placed in the hands of receiver, assignee or trustee or in event of a merger or consolidation to which LICENSEE is a party, whether by the voluntary act of LICENSEE or otherwise, this AGREEMENT shall immediately terminate without the notice of either party.

Option at Default: Either party, at its option, may give notice of the termination of this Agreement if the other party defaults in the performance of any material obligation under this AGREEMENT, and if the defaulting party has not remedied the default within 90 days, has the right to terminate the agreement.

In event of Termination, LICENSEE shall have no further rights under the agreement and LICENSOR shall not be entitled for royalty payment or other payment except for those as has been decided by the adjudicating body.

IN WITNESS WHEREFORE, this agreement is made in duplicate and each party has caused its name to be hereunto subscribed, by its duly authorised officer as the date indicated above.

LICESOR

LICENSEE

BY: _____

BY: _____

[NAME]

[NAME]

[TITLE]

[TI

CONCLUSION

Thus transfer of technology agreements are an important method for the transfer of technology between various entities, which may include either private firms, private or governmental companies, research institutions and laboratories and even private individuals. Such transfer of technology serves various purposes. At one place it is seen as the commercial exploitation of intellectual labour put by the developer in developing the technology. On the other hand it is also needed for the purpose of bringing about parity in technological dissemination particularly in those nations where technology is considerable at low level.

However, to make the technology transfer a meaningful and beneficial for both the transferor and the transferee it is quintessential that certain issues as has been discussed above should be properly addressed. These issues relates to various legal and policy matters. Further, in technology transfer agreements, particularly relating to commercial exploitation and

government cooperation agreements, special emphasis must be paid to the drafting of such agreement. Such special attention is required so that all rights of both the parties are clearly mentioned and no dispute should arise subsequently.