Technology Transfer rules in Latin America a Study in Comparative Law

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The rules which govern contracts for the transfer of technology between Latin America and the developed countries of North America and Europe are complex because both transferor and transferee nations are involved and there are significant changes in the rules from time to time. For example, there was a trend toward strict rules in the recipient countries which are now being modified, and there is a trend toward greater scrutiny of such transfers in the transferor countries, especially Europe and Japan.

Contracts for the transfer of technology have come under scrutiny in Latin America, where governments are cracking down on those clauses which restrict the power of the recipient to take full advantage of the technology acquired. Legislation in Mexico, Brazil, Venezuela, and Argentina was inspired by United States and European efforts to control restrictive business practices and to maintain competition, but the motivation for the Latin American regulation of these contracts is different, namely, to protect the nationals of less developed countries from heavy-handed provisions in international contracts with corporations from the developed countries. To explain the rules on technology transfer contracts in Latin America today in terms of economic nationalism might be an oversimplification. Royalty payments to foreign licensors are subjected to a deep-rooted distrust and a sense of inferiority of bargaining position. In other words, what may well be sensible provisions to maintain competition and assure a free

market in the developed countries of Europe, North America, and Japan, have been used as the basis for a series of measures which may well inhibit the technological development and growth of Latin American countries involved.

In this paper we compare the technology transfer provisions of the Latin American countries with the United States and other antitrust provisions applicable to licensing agreements. We also look at the draft Code of Conduct formulated by the Pugwash Conferences and sponsored by UNCTAD as a basis for evaluating the extent to which the Latin American legislations have fulfilled the purposes laid down in the UNCTAD documents.

Thus the topic of this paper can be divided into three interrelated subjects; namely, the U.S. and European experience, the Latin American regulations, and the international efforts to write a Code of Conduct to regulate technology transfers.[1]

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1. For background information on all three topics in summary form, see SILVERSTEIN, D., «Sharing United States Energy Technology with Less-Developed Countries: A Model for International Technology Transfer,» 12 *J. Int. Law and Econ.* 363 (1978) especially pp. 379-396. A thorough analysis of the international efforts on a fairly current basis is available in FINNEGAN, M., «A Code of Conduct Regulating International Technology Transfer: Panacea or Pitfall,» 1 *Hastings Intl. & Comp. Law R.* 57 (1977) especially pp. 67-87. The study prepared by Eduardo White of INTAL is the most complete source on Latin American rules published by UNCTAD, «Control of Restrictive Business Practices in Latin America,» United Nations, 1975 especially pp. 53-103, UNCTAD/ST/MC/4 GE. 75-45034. An earlier publication of the Council of the Americas, Driscoll, R.E. and Wallander, H.W., Edw., *Technology Transfer and Geographic Perspective,* New York, 1974, covers the history of UNCTAD and other international efforts as well as papers on Mexico, the Andean Group, Brazil, and Argentina. A background paper for a seminar in June 1977 updates the Council of the Americas work: KANTOR, N.D., «Restrictive Business Practices in Latin America,» Seminar Paper, June 1977. The literature in this field is expanding rapidly both in Europe and in Latin America in German, French, and Spanish language journals. The most useful single source for all developments is the *Boletin de Información Legal del INTAL* entitled *Derecho de la Integración* which has published comparative studies on technology transfer rules.

In the United States and more recently in Europe there has been a running battle between the innovative private company that invests heavily in research and development (R&D) to keep ahead of its competition and the government that regulates more and more business activity. That battle is most vociferous in the area of inventions, patents, know-how, trade secrets, trademarks, and copyrights of training manuals, industrial designs and models, all of which are able to be licensed in an international technology transfer. If a company has substantial contract work with the government, the government uses its leverage to force the private company to disclose proprietary information. One firm challenged the government in court and was granted special protection custody for secret chemical formulas which have to be disclosed to the U.S. government under current controls.[2] Obviously the enormous investment in R&D and emphasis on innovation has to be justified by some reasonable return in the form of royalties and patent licensing and know-how agreements. But the U.S. government is not willing to recognize proprietary rights in know-how which is not patentable, because it is not property and therefore not protected by law. The licensee of a patent, trademark, or copyrighted design will not be satisfied nor will he produce efficiently without the guarantee of know-how. As long as licensing agreements were predominantly concerned with rights to use a patent or other industrial or intellectual property, the rules on know-how were subsumed as ancillary to the principal thrust of the contract. But as patents run out or are unobtainable because the particular process lacked the required level of invention, the multinational firm may find more and more of its overseas contracts involving only know-how. This may also be due to the nature of the foreign demand, where local manufacturers seek only the

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2. Unpublished Babson College 1978 paper by CASE, W.L., MARTHINSEN, J.E., and MOSS, L.E., on Trade Secrecy and Patents in which the authors stress the changes in patent licensing which government controls have forced on private industry.

technical knowledge necessary to construct the plant and put it on-stream.

Legal protection and licensing of know-how internationally first developed on the assumption that it was a form of industrial property. As between licensor and licensee, something of value is transferred for consideration and there is a valid contract binding the parties.

But in the case of *Lear v. Adkins*, the U.S. Supreme Court, adhering to the principle of free access to knowledge, imposed narrow limits on monopoly which "cannot be frustrated by private agreements..."[3] Contracts to license unpatentable know-how and trade secrets are unenforceable in the federal courts of the United States, since know-how contracts are distinguishable from the licensing of protected international property such as patents, trademarks, and copyrights.[4] The dictum of the *Lear* case was the basis for holding that federal patent law requires an inventor to submit his ideas to the Patent Office before he can compel payment for the use of his idea.[5]

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3. 395 U.S. 655 (1969), at 677. See also *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) holding unenforceable a contract to pay royalty after patent expired.

4. C.G. ROOT, «The Validity of Transnational Technical Know-How Licensing Agreements in the United States Courts,» 2 *California Western International LaW Journal* 128 (1971). For nearly ten years following the decisions in *Sears, Roebuck & Co., v. Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Bright Lighting, Inc.*, 376 U.S. (1964), Supreme Court held that states could not employ unfair competition laws to protect industrial designs which were not patented or copyrighted because this area was preempted by federal law under the Supremacy Clause. U.S. Const., art. VI, cl. 2. In the case of *Lear v. Adkins*, the Supreme Court applied the reasoning of *Sears* and *Compco* to hold that a patentee could not rely on state contract law as the basis for collecting royalties under a patent licensing agreement after the underlying patent had been declared invalid.

5. *Painton v. Bourns*, 309 F. Supp. 271 (1970) at 274. The first suggestion that the Supreme Court was prepared to retreat from the hard line taken in *Sears* and *Compco* came in *Goldstein v. California*, 412 U.S. 546 (1973). Goldstein reaided the question of whether a state

Finally in 1974, the Supreme Court recognized the legitimate interests of licensors to make binding contracts to provide know-how and trade secrets for a payment by the licensee.[6] The opinion of the majority fails to clarify the status of international technology transfer agreements even though it points out the obvious differences between patent rights and trade secret rights. Whether the latter are truly proprietary rights is still in doubt since the enforcement of such rights depends on the private law of contracts rather than the public grant of a patent or other form of industrial property.

In spite of the spate of cases in the European Community in the late 60's and early 70's, in today's economic climate, Europe wants to encourage the transfer of technology and the conclusion of licensing agreements, rather than regulations which specify a long list of prohibited clauses.[7] Even in its revised form, the EEC draft Regulation is not likely to be accepted and certainly will not come into force on its projected date of January 1, 1979. Thus we can assume that even a relatively mild control of licensing agreements is not likely to be accepted in Europe.

In the United States, the courts attacked patent licencing ancillary to illegal schemes to restrain trade and eliminate

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could prevent the duplication of sound recordings which, prior to the Sound Recording Act of 1971, Pub. L. No. 92-140, 85 Stat. 391 (1971), were not eligible for federal copyright protection. The Court ruled that in some areas concurrent state and federal regulations were not incompatible and, in these areas, the Court would not imply a Congressional intent to preempt the field absent specific provisions to the contrary.

6. *Kewanee Oil Co. v. Bicron Corp.* 416 U.S. 470 (1974) then proceeded to hold that states could enforce trade secrets through state law of contracts.

7. BASSETT, N.F., «EEC Group Exemption for Patent Licenses,» 6 *Int. Bus. Lawyer* 226 (1978) discusses the Article 85(3) exemption «which may be granted to those arrangements which, although they may violate Art. 85(1), nevertheless may be held to benefit the public interest» and the draft Regulation which lists clauses immune from Art. 85(1) and clauses not permissible, known as the «black list.»

competition. A series of cases in the federal courts have led the U.S. Department of Justice to scrutinize international technology licensing agreements for possible anticompetitive effects.[8]

The purpose of U.S. scrutiny is to keep firms from monopolizing the innovations which they have worked so hard and spent so much to develop. If a substitute technology is not available at equivalent costs, the government steps in to investigate the possibility of anticompetition practices. Whether this scrutiny will be more severe as firms turn to trade secrets and know-how agreements remains to be seen. There is a point where government intervention is counterproductive since firms encounter so much regulation that they withdraw into the safety of undisclosed trade secrets. "If trade secret protection is more attractive from a business point of view than patent protection, it is not hard to imagine a group of firms... excluding competitors without access to the secret and forever preventing the knowledge from passing into the public domain."[9]

In general terms, the home country inhibits the licensor as to the type of property rights and the conditions under which such rights can be transferred, whereas the host country restricts the form or amount of payout and other conditions which can be demanded of the licensee. Both countries may be involved in the case of a breach of contract and either licensor or licensee may be liable for damages. Special legal hazards arise in both countries and affect both parties.

Licensors tend to be in a stronger bargaining position to dictate the terms, especially if they are economically superior to the licensee. As a result of the inequalities of

8. See U.S. Dept. of Justice, Antitrust Division, Antitrust Guide for International Operations, 1977; *Timken Roller Bearing Co. v. U.S.* 341. U.S. 593 (1951) *U.S. v. National Lead Co.* 63 F. Supp. 513 (S.D.N.Y. 1945) U.S. v. I.C.I. 100 F. Supp. 504 (S.D.N.Y. 1951).

9. SILVERSTEIN, op. cit. n. 1, p. 385. Cf. DAVIDOW, «U.S. Antitrust Laws and International Transfers of Technology — the Government View,» 43 *Fordham L. Rev.* 733 (1975).

bargaining power, legislation has established greater governmental supervision and control of contracts, particularly in the public services, communication, and extractive industries. To the extent that standardized contracts in the licensing field contain or refer to legal rules which are detailed and can supplant national laws, there is little left to be governed by the proper law of the contract.

In a comparative survey of these government restrictions on licensing, the most liberal will recognize know-how as a fully licensable right that requires no registration, where no limits will be placed on the length or terms of the agreements, and where clauses will be allowed stating that monopoly extends beyond the patent, or other industrial property, both in time and space. In countries where the balance of payments and availability of foreign exchange has improved, the requirement of registration and limits on royalty payments are being liberalized. Such liberal countries allow clauses restricting licensee's exports to avoid competing in the licensor's own market. Most of the reservations expressed by governmental agencies concerning licensing contracts are concerned with certain industries and with rates of royalties.

In comparing European, U.S., and Latin American rules on the rights of a licensor to dictate the terms of his licensing agreement, the draft Regulations of the EEC are the most lenient, the U. S. more stringent but still allowing some autonomy, and the Latin American's the most strict. In order to appreciate the reason for the strong reaction against freedom of contract in technology transfer, the UNCTAD reports need to be studied in detail. The 1972 report showed that less than 1% of all patents issued were owned by one of the developing countries. In its 1975 report on major issues arising from the transfer of technology to developing countries, UNCTAD estimated that they were paying one-and-a-half million dollars for technology and could be paying nine million dollars by the end of the 1970's.[10]

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10. TD/B/A.C. 11/10/Rev. 2. p. 1. 1975, TD/B/A.C. 11/19 Rev. 1974 pp. 20-29. E. 75 II D. 6, 1972.

The reports led to a declaration on revising the Paris Convention on industrial property to fulfill these objectives:

1. The industrial property system can serve as a useful tool for facilitating transfer of technology to developing countries if the international standards are adapted to the economic, social, and political conditions and national development objectives of developing countries and if they do not constrain in any way the flexibility of each country to adapt its laws and practices to its own needs.

2. The immediate and continuing task of the system should be to provide, in the shortest time possible, the broadest possible technical assistance to help developing countries strengthen their scientific and technical infrastructures and to train their specialists.

3. The international standards should reflect the historical and economic changes which have taken place, and the new trends in national legislation and practices of developing countries (whether members or not of the Paris Union).

The nine countries in Latin America have established legislation for the control of restrictive business practices in international licensing. Argentina and Mexico have special laws, and the six countries of the Andean Group have a joint regime, while Brazil has incorporated its rules in the law of industrial property. The central objective common to all of them is to control the monopoly or oligopoly power of foreign licensors. The laws classify various types of restrictive clauses, including such typical restrictions as territorial limitations, tie-in sales, price fixing, and other vertical restrictions. The method of control is usually through requiring the registration of all international license agreements. The control methods follow three approaches, namely: 1) absolute prohibition, 2) prohibition except in specific instances, and 3) optional prohibition at the discretion of the competent authorities.

Considerable pressure has been applied to eliminate or modify particular practices in existing and new international licensing agreements, especially through the power of competent authorities to refuse registration.

These laws are not founded on a strong tradition of antitrust or antimonopoly such as existed in the United States, but rather stem from efforts to regulate foreign investment. In Latin America as in Europe before the successful establishment of the European Common Market, the government really did not believe in competition as an effective means of maintaining fair prices and self-regulation of economic activity through market forces. So that it has really been only in the last ten years that any significant efforts have been made to regulate international licensing agreements. The first countries to take specific measures were Chile and Colombia, both of whom were analyzing these agreements to determine the impact of royalty payments on the balance of payments.[11]

As a result of working together in the past few years, the Latin Americans adhere to three principles that they have always had in common; namely, state intervention, even to the extent of strengthening negotiations by making the government a party or a protector of local enterprises with a view to increasing their bargaining power; second, registration of the contract with the possibility of approval or disapproval; and thirdly, specific control of the clauses in licensing agreements imposing on the recipient obligations in matters not directly connected with the object of the agreement or

11. Chile: Decree No. 1272 of 1961 and Colombia: Legislative Decree No. 444 of March 1967 which established a committee on royalties (Article 102) responsible for approval of agreements involving foreign transfers of royalties, use of trade marks, patents, etc., obviously designed to regulate the availability of foreign exchange. Such laws were first introduced by other countries in 1971-1972; namely, the Andean Code which sought to harmonize the legislation of the member countries on the use of foreign technology; Argentina in September 1971, updated, most recently in August 1977; Brazil's Industrial Property Code of December 1971; Mexico's Law of December 11, 1972.

those which affect his power of decision and subject him to domination by the transferring enterprise.

Most of the Latin American codes provide that registration will be denied if unacceptable provisions are included or mandatory guarantees are omitted. The following analysis of the principal prohibited clauses and guarantees does not attempt to cover all of these provisions in the Latin American countries. For the purposes of comparison, a few of the most controversial or significant are considered.[12] In addition to the Latin American initiative which has sparked the UNCTAD Code of Conduct (to be considered in the last part of this paper) there is resentment against many current practices in the field of licensing. For example, they propose to curtail protection of unpatented know-how and trade secrets, to shorten the patent time, to require eorking of local patents, to allow export or technology-produced products, and to require greater disclosure in patents so that they do not need to obtain commercial and technical know-how in order to take advantage of the invention which they have acquired the right to use under the patent license.

Marcus Finnegan, in his comments on the Mexican law, expresses a view that the outstanding difference between U.S. law and the Mexican rules is the requirement of compulsory registration of all license agreements with the national registry for the transfer of technology. Typical of all of the Latin American legislation, if the agreement is not registered within the time that is prescribed under the law, the agreement will be unenforceable and illegal in Mexico. He points out that the United States law is completely different

12. UNCTAD/WIPO. The Role of the Patent System in the Transfer of Technology to Developing Countries. 1975 TD/B.AC. 11/19 Rev. 1, pp. 28-29. See also Fenlow, «World-wide Licensing Challenges,» 1974 Pat. L. Ann. 115 which summarizes the most important provisions of the Latin American laws at pp. 131-134. Abusive practices which even the OECD Council noted in its recommendation to member countries of 2 January 1974, alerting the governments to the harmful effects of licensors acting in an unjustifiable manner.

since there is no requirement that agreements be registered with any government agency. In fact, he states, "In the United States agreements are considered private agreements and may be kept secret between the companies unless there is a dispute between the licensor and the licensee that would cause the agreement to become before a court adjudicating the dispute."[13] The differences between the Mexican and U.S. laws are significant in that the objectives of the Mexican law and those of U.S. antitrust laws are quite different. In the case of the United States, the purpose is to insure free and open competition between companies operating in the same market, whereas the Mexican and other Latin American laws are designed to help developing countries to control the kind and quality of technology that is introduced there and to insure that the technology will be worth the price. Therefore, the registration requirement in these countries is necessary to obtain detailed information on what technology is actually being transferred, how much is being payed for it, and whether it is in the national interest to allow it to be introduced on those terms. The licensing restrictions, or clauses of licensing contracts that are declared to be illegal in Mexico, are based directly on the same legal philosophy which under U.S. antitrust law prevents a licensor from requiring a licensee to accept conditions which he does not want to accept. Licensors in the United States and in Europe are becoming more and more accustomed to the antitrust laws as applied to licensing so that licensors can learn to live with them.

With respect to grantbacks, the Latin American legislation clearly makes any requirement the licensee should provide the licensor with the property and any improvements made to the practice of the licensed technology illegal. In the United States it is still perfectly legal for licensors to require licensees to give such rights, to at least a non-exclusive license of any

13. Finnegan-Goldscheider, Eds., *The Law and Business of Licensing*, 1975, p. 84.

improvement inventions made by the licensee.[14] In some cases the licensor would agree to pay a royalty for the grant-back. It is doubtful if Latin American legislation could be interpreted to suggest that the licensor is free to require the licensee to grant a non-exclusive license to improvements.

Since all of the Latin American legislation includes a prohibition against the licensor placing limitations on export of goods or services produced under the license, this provision is especially onerous on U.S. licensors, since there is no equivalent provision in U.S. or European antitrust law. Territorial restrictions are permitted if they are reasonable in scope and duration; where a licensor has already given an exclusive license for another territory, it would be difficult to allow a Latin American licensee to export into the exclusive licensee's market.

To the extent that Latin American legislation prohibits the licensor from limiting the volume of production under the license, it is obviously more strict than U.S. laws which permits such a provision if it is reasonable.

In Argentina, the registration of technology transfer contracts required by Law No. 21617 of August 12, 1977, has been modified by Law No. 21879 of September 19, 1978, as to the rules for related companies. Contracts between a foreign-owned local company and the company which directly or indirectly controls it may be approved if they can be considered as being made between independent enterprises. But payment of trademark royalties between those companies were not allowed and any payments between them had to be

14. SILVERSTEIN, op. cit. n. 1, p. 382. The grant-back clause is a covenant by a licensee to disclose to the licensor any improvements pertaining to the licensed technology. The principal argument against grant-back clauses, especially those providing for a royalty-free assignment, is that they stifle research and development activities by patent licensees because only the licensor stands to profit from any significant innovations. In the case of *Transparent-Wrap Mach. Corp. v. Stokes & Smith Co.*, 329 U.S. 637 (1947), the Supreme Court held that such clauses are not per se violations of the U.S. antitrust law.

justified annually. Now fixed amounts are to be allowed in cases of technical services from abroad, repairs, emergencies, and personnel training. This represents a further liberalization of the transfer rules of Argentina.

PART II

Obviously the rules governing technology transfer in the countries involved, namely the transferor and the transferee, will be of importance in any contract to license or otherwise transfer industrial property and know-how from one country to another. The most recent tendency goes beyond the analysis of existing home and host country legislation to the introduction of what must be thought of as model legislation based on a comparative study of the laws governing technology transfer. This study was inspired by the work of Eduardo White and other Latin American experts, but has now been sponsored by the United Nations and specifically in a series of so-called Pugwash Conferences on the subject. The purpose of the International Code of Conduct is not to achieve a set of rules governing international transactions so much as to set a standard which each country would use as a yardstick for its own legislation.

The conference held in Geneva in April 1974 produced a working group report which recommended a Code of Conduct on the transfer of technology.[15] During the last few years, especially at the UNCTAD IV Conference in Nairobi in May 1976, the intergovernmental group of experts have drafted similar codes of conduct for the transfer of technology. It is not my purpose here to point out the differences between the UNCTAD draft and the so-called Group of 77 draft since all three follow a pattern which identifies clauses which

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15. UN Doc. TD/B/AC. 11/L. 12 (1974) hereinafter referred to as the Pugwash Code. See also Finnegan, M.B., «A Code of Conduct Regulating International Technology Transfer: Panacea or Pitfall?» in 1 *Hastings International and Comparative Law Review* (1977) p. 57, especially p. 67.

are considered as restrictive business practices. The OECD sponsored a draft which differs from the others in that it only identifies a limited number of categories of such practices, but all of them agree that the following clauses shall not be used in technology transfer contracts.

Both the Group 77 Code and the Pugwash Code are intended to become internationally legally binding instruments, whereas the OECD draft is offered simply as a guideline rather than a legally binding code. In any event, the comparison between the restrictive business practices singled out for comment in the international efforts and those in the United States, Europe, and Latin America are striking in their similarity. As Finnegan points out in his article, a clause which requires the licensee to acquire materials, parts, or products for use with the licensed technology only from the licensor, thus tying in unprotected goods is usually illegal under U.S. antitrust laws and is also absolutely prohibited in the international draft code.[16]

Although the Group of 77 Code spells out 40 different kinds of unacceptable provisions, there are five offensive clauses which are worthy of comparison here.

1. *Price Fixing*: Clauses or practices whereby the supplier of technology reserves the right to fix the sales or resale price of the products manufactured.

In the OECD draft the unacceptable clause is the one which sets the price or the quantity or the output within the licensee's territory. In both the United States and Europe, price fixing is contrary to competition policy. In Latin America it is absolutely prohibited. In the Andean Code (Article 20b and 25c), and in the Argentine law Decree 119, paragraph 2d. It is also prohibited in Mexico under the law of December 1972. But there is no reference to price fixing in the law of Brazil. But INPI has power to control price fixing clauses.

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16. FINNEGAN, op. cit., p. 68 citing International Salt Co. v. United States, 332 U.S. 392 (1947).

2. *Export Restrictions*: Clauses or practices prohibiting or limiting in any the export of products manufactured on the basis of the technology in question and requirement of prior approval of the licensor for exports are prohibited except in justifiable circumstances.

In the OECD draft unreasonable restrictions preventing export of the patented product to specified areas are outlawed. In his footnote to this provision, Finnegan points out that the Japanese FTC guidelines quite sensibly provide that export restrictions may be considered unfair business practices except where the licensor has patent rights in a territory which the licensee is restricted from exporting or where the licensor is already selling the licensed product in the restricted area under his normal business practice, or finally where the licensor has already granted an exclusive license to a third party to sell in a restricted area.[17] Obviously the absolute restriction of such clauses is difficult to achieve in any legislation, although the laws of Mexico and the Andean group do not allow so much flexibility as the Japanese rule cited above. For example, in the Andean Group export restrictions are only allowed in exceptional cases duly justified by competent authority.

In the United States and Europe, export restrictions are only prohibited where unreasonable, and much of the case law in both jurisdictions centers on defining the nature of the reasonableness of the restriction.[18] Obviously, export restrictions can only be imposed on the licensee since it would be beyond the scope of his property rights in the technology for him to attempt to restrict the buyer. But one must be careful to distinguish between patent licensee agreements in which export restrictions are likely to be scrutinized fairly carefully and know-how contracts or trade secrets transfers

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17. FINNEGAN, op. cit., p. 53, footnote 52.

18. United States v. Crown Zellerbach Corp., 141 F. Supp. 118 (N.D. I 11.) 1956 and Consten and Grundig v. EEC Commission, CCH Comm. Mkt. Rep. 7618 (1966).

which are not subject to the limitations of industrial property law.

3. *Tie-in Clauses*: Clauses which restrict the sources of supply of raw materials, spare parts, intermediate products, and capital goods, and such a clause is considered to be unacceptable under the various international draft codes.

The OECD is precise in ruling out clauses which oblige the licensee to obtain goods from a designated source or to sell to the licensor. Of course quality control may require or justify some reasonable tie-in of supplies or capital goods and therefore it may be necessary to allow some exceptions to the general rule. Stephen Ladas points out that tie-in clauses which are ruled out in the licensing of industrial property may well be permissible, if not necessary, in the case of licensing of trade secrets and know-how.

In Latin America the clauses which impose obligations to purchase equipment are absolutely prohibited in Argentina and Brazil and not allowed in Mexico if the goods can be purchased for more favorable terms elsewhere. In the Andean Code and in other Latin American countries, the mandatory purchase of tie-in goods is allowed only when the prices correspond to world market prices. In the Latin American view all clauses which oblige the licensee to do business with the licensor or use his distribution channels are prohibited on the basis that they put too great a limitation on the rights of the licensee. In Mexico a clause obliging the licensee to sell exclusively to the licensor his entire production at a price established by the licensor is absolutely prohibited.

It is interesting to note that the Latin American legislation includes grant-back clauses in the general territory of tie-ins, rather than as a separate category. This is also true of clauses which restrict the use of other technologies which are absolutely prohibited in the Andean Code and the policy of the Brazilian authorities is to allow such restriction if the prohibition applies only for the duration of the contract.

4. *Unilateral Grant-Back Provisions*: Unilateral grant-back provisions for a flow of technology from the recipient without reciprocal obligations by the supplier and a requirement that all new technologies, patents, and improvements developed by the technology recipient shall be the property of the licensor are clauses which have been prohibited in the international drafts.

In the Group of 77 only exclusive grant-backs are prohibited, and then only if there is no reciprocal obligation on the technology supplier. The OECD draft prohibits a requirement that the licensee assign a grant-back to the licensor exclusively of all improvements discovered, but the assumption is that it is a restrictive business practice only if it amounts to an abuse of the dominant position of the licensor. In the United States and Europe, a non-exclusive grant-back clause is not a violation of the competition policy, and one assumes that most transferors of trade secrets or know-how would be able to enforce a contract which required that all improvements be transmitted to the licensor.

5. *Royalties Clauses*: Restrictions which would have effect beyond the duration of the contract are those which are most difficult to assess. If the licensee undertakes not to contest the validity of the supplier's patents or if a clause restricts the use of the patented or any unpatented know-how which relates to the working of a patent after the patent has expired, the clause is subject to criticism as being unenforceable and not justifiable. Obviously the effort to collect royalties on patents after they have expired is unenforceable under N.S. patent law. A clause which the licensee agreed not to challenge the validity of the licensor's patent was prohibited in the United States Supreme Court and Europe.[19]

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19. See discussion of Brulotte and Lear cases above.

It would seem that the real purpose of prohibiting the continuation of restrictions on use after expiration of agreement in the international drafts as well as in the Latin American countries is based on the desire not to be subject to limitations for an unduly long duration. In the Latin American legislation there does not seem to be any rule which states that restrictions may not be imposed on the use of the matter licensed after the termination of the contract. However, in the administrative practice of most of the countries, it has been established that once the contract is expired no limitations can be enforced.

This short review of five of the principle types of rules governing international technology transfer contracts suggests that there is substantial agreement between the international drafts and the legislation of the more advanced Latin American countries. It is therefore concluded that the Latin Americans will urge adoption of these draft codes of conduct as legally binding instruments and will attempt to introduce them both globally and regionally in the near future.