LEGAL ASPECTS OF TRANSFER OF TECHNOLOGY

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A transaction involving the transfer of technology has numerous facets : the technical one, the commercial one, the financial one and, at times, the political one. But one aspect of paramount importance is common to all agreements for the transfer of technology, namely, the legal one.

Dual character

The legal aspect of technology transfer itself possesses a dual character. In its general aspect, such an agreement is a contract governed by the law of contracts. In its special aspect, it is a contract for a specific purpose, involving a peculiar type of property and entailing certain special obligations not found in other contracts.

Speaking of the general aspect, it is elementary that the principles that apply, in law, to contracts, apply as well to agreements for the transfer of technology. These include contractual capacity, consensus based on free consent, lawful consideration and lawful and, wherever necessary or relevant, requirement form. The special characteristics of an agreement for the transfer of technology arise from the fact that what is being transferred is not a visible property or a tangible commodity, but something intangible. It is an idea, an achievement of the mind, a fragment of intellectual expertise, which is being parted with by one person in favour of another. Such property has come to be known as intellectual property, because it is being the intellect and also requires intellect for exploitation. But the legal doctrines relating to intellectual property concerned with technology are themselves still nascent and evolving. Many persons in the world of business (and in the world of law) do not have a very precise picture of the nature of the property that is being transferred and the exact implications of the transfer.

Nature of property

Another peculiarity of such agreements arises from the fact that the property transferred is a precious one. A bit of such knowledge can fructify in a gain of millions. That apart, to the owner of the technology, it is a prized object. The transferor does not propose to abandon his link with the technology for all times to come. His intention is to transfer it only to the transferee for a specified purpose and, for all other purposes he intends to retain control over the technology. This brings in an element of secrecy and an element of exclusivity in favour of the transferor. There is also another type of exclusivity involved here. The transferee of technology expects that the benefit of technology will be exclusively his, for the period and in the territory mentioned in the agreement.

Chronological stages

From the chronological point of view, the acquisition of technology by a prospective transferee comes at an intermediate stage between the various stages involved in the commencement, construction and completion of a manufacturing project. First comes a study of technical feasibility, commonly known as the detailed project report. The second stage is concerned with the engineering part. This usually involves consultation with experts in chemical engineering, industrial engineering, industrial architecture, factory lay-out and so on. The third stage is mainly concerned with the actual installation of the machinery, namely, construction of the plant. It is at the fourth stage that the actual acquisition and use of technology takes place. The fifth and last stage is planning the lay-out for management of the enterprise. Of course, the above chronological classification is only a convenient method of describing the stages in a rough and ready manner. In actual practice, one stage often dovetails into another and, finances run like a thread throughout the entire process. Again, legal preparations for acquiring technology can often be made in advance of the actual acquisition.

Defining the technology

At the stage of acquiring technology, the first requisite from the legal angle is defining the technology to be transferred. Here, the lawyer must have a clear grasp of the concept and dimensions of intellectual property and of the legal doctrines relevant to such property. Ascertainment of the technology to be transferred begins in the mind of the scientific expert, but it must ultimately end in a concrete written document. At that stage, legal skills can become eminently useful. Of course, the scientific aspect and the legal aspect cannot be isolated from each other. It is the source material which the scientist supplies, that the legal adviser must transform into a written contract. He must dress up the intangibles of science in the tangible language of the law. He must relate scientific data and desiderata to legal rules. He must try to pigeonhole scientific requirements under appropriate legal compartments. In short, the legal adviser must see that what the scientific adviser suggests and what the businessman, who is his client, desires, intelligibly speaks the language of the law. This does not mean that the task of identifying the technology to be transferred is to be monopolised by the lawyer. Anyone who has done legal drafting knows, that often, the non-lawyer supplies valuable suggestions on matters which might have escaped the attention of the legal adviser, immersed as he would be in the narrow streams of the law. Thus, identification of the technology is an important step. Since a transfer of intangible property cannot be concretised by the use of maps or other identifying devices available for immovable property, careful attention is required in this regard.

Meaning of "transfer"

It is equally important to ascertain what is meant by "transfer". The components of any kind of transfer of property are numerous. For example, there is the question about the extent of the transfer. Is the transfer to be of the whole property or of a

part ? One should also know and define the duration of the transfer. Is it for a particular period or is it subject to termination by either party ? The position regarding further assignment of the transferred rights is of equal importance. Finally, there is the question of the terms upon which the transfer is made, which includes such matters as monetary payments, obligations of the transferor to provide further information or training, obligations of the transferee as to the quality and quantity of the product to be obtained by exploitation of the technology and other terms. In fact, if the definition of the technology is the heart of the matter, the detailed terms represent the blood that will be running through the arteries and veins.

Questions of detail

Of course, the major topics mentioned above themselves give rise to a number of subordinate questions and points of detail. The intelligent lawyer, when confronted with the task of preparing or scrutinising a proposed agreement for the transfer of technology would do well to classify the various clauses under convenient headings, such as defining the technology, specifying its duration, including provisions regarding period, renewal and termination of the agreement, effect of subsequent events on the subsistence of the agreement, rights and obligations of the licensee and the licensor, interpretation of the agreement and resolution of disputes that may arise under the agreement. Amongst the rights of the licensee, particular attention has to be paid to the aspect of exclusivity in favour of the licensee, guarantees of quality of the technology by the licensor, access for the licensee to future improvements made in the technology by the licensor, training of personnel by the licensor, permission to assign rights under the licence and sub-licensing by the licensee. As to the obligations of the licensee, these usually include restrictions concerned with the sale of the process or product, licensee's obligation to purchase certain components only from the licensee and obligation to allow inspection by the agents of the licensor, obligation to submit reports on certain facts and obligation of confidentiality.

Confidentiality

During recent years, the obligation of confidentiality has come to acquire some importance in business and industry. Earlier, in the common law countries, this area of the law had not been much explored. It used to be taken for granted that in such cases a cause of action in law must be based on some specific legal contract. But the position has considerably changed during recent years. Legal literature and decisional law of many countries, including India, now presents fairly rich material relating to judicial controversies which have been laying down the obligation of maintaining confidence and secrecy in a variety of situations. The doctrinal basis supporting the relief to be granted by the court is not very precisely defined. The law may be said to be in a fluid state at present. Yet, it can be stated without much fear of contradiction that the duty to maintain secrecy is now more readily implied by the law than was the position earlier. On an over-all view of the subject of breach of confidence, one finds that the obligation to preserve confidence may not merely arise from a statute or an express contract, but may also be implied from the relationship between the parties or the circumstances in which they are placed. One

may call it equity as supplementing the law, or give it any other label. But breach of confidence is now supplying a major topic for legal writings and legal digests and threatens to develop into a specialised branch of the law.

Kinds of agreements : licensing

It may be noted, that different contractual agreements can be adopted for the supply of technology and the performance of other obligations under such agreements. The transfer of technology may occur through the grant of licences in respect of industrial property, or through the supply of confidential know-how or through the information of a joint venture between the parties. The first type of arrangement, namely, licensing, is linked with the substantive rules of the legal system concerned. A common form of industrial property consists of patents. Under the legal system of many countries, a person who invents a process or product can apply to a governmental institution for the grant of a patent protecting the invention in the country. Once a patent is granted for a particular period, the invention which is the subject matter of the patent cannot be exploited by a person other than the patent holder without the consent of the latter. The licence is the essential legal expression of that consent. Besides patents, other forms of industrial and commercial property are also recognised by most legal systems, such as trade marks, designs and utility models.

Transfer of know-how

Apart from licencing, there is the second type of contractual arrangement, consisting in the transfer of know-how. Persons in the world of business often make a confusion between the licence and the transfer of know-how. But juristically, the two are different from each other. When the holder of a patent or trade mark gives a licence, he is parting with some right which has received statutory recognition under a specific statutory apparatus. On the other hand, when he seeks to transfer know-how, the information or skill which is the subject-matter of know-how is usually something which may not necessarily have received statutory recognition, but which is still his intellectual property. Certain industrial processes may be known only to one enterprise or to a few enterprises. These enterprises might not wish, or may have been unable, to protect the industrial processes through registration in accordance with the law relating to industrial property. They may, instead, keep this knowledge confidential. In such cases, the transfer of technology occurs, not through licencing, but through an agreement for the supply of this knowledge, generally called know-how, to the purchaser. Though some countries use the terms licensing to cover both the types of contractual arrangements, licensing in the strict sense is to be distinguished from transfer of know-how. This distinction becomes of the greatest practical importance when one comes to the obligation of confidentiality. The extent to which a contractual obligation of confidence may be imposed on the purchaser of know-how, is of prime importance. Subject to mandatory legal rules in the country of the purchaser, the contractual provision as to confidentiality should address itself to a variety of issues, such as, clear identification of the know-how to be kept confidential, duration of the

confidentiality, extent of permissible disclosure in specified circumstances or to specified persons, cessation of the obligation of confidence when the information becomes available to the public and so on. Know-how normally consists of a number of elements, of which one element or a combination of elements is of a secret nature. This secrecy adds to the economic value of the know-how and gives a special juridical character to transfer. The secret may not be permanent and may not necessarily be the prerogative of a single possessor. Nevertheless, so long as it is not given out to the public, each of its possessors enjoys an advantage over his competitors. This is an advantage which the possessor of know-how is all the more concerned to exploit, because it is temporary. The grantee of the know-how, in his turn, generally wishes to use it in order to equal or surpass his competitors in the technical field. Incidentally, it is because of this aspect of know-how that one consideration becomes important, namely, the transfer of know-how is **intuitu personae.** Mutual confidence between the parties is a fundamental element in any contract for know-how and, by reason of such mutual confidence, the identity of the parties is also of fundamental importance. For this reason, it is sometimes provided that the contract may be terminated if the parties change their identity or effective control, by amalgamation, merger or the like.

Disputes resolution : arbitration

Resolution of disputes under an agreement for the transfer of technology through any model is also of practical importance. Apart from securing a decision through the judiciary, arbitration is gaining popularity and in a transnational agreement, it might even become a necessity. For this reason, the draftsman of such an agreement has to pay particular attention to the arbitration clause. Some of the important practical points that he must consider, are the following :-

(a) Who is going to appoint the arbitrators and what wiil be their number ?

(b) What will be the venue of arbitration ?

(c) Who determines the remuneration of the arbitrators ?

(d) What is going to be the procedure of the arbitrator ?

Applicable law

Whether the settlement machinery is through the judge or through the arbitrator, one question of importance always arises about the law applicable to substantive issues. It is desirable that the contract should make a provision for the law applicable for determining disputes that may arise as to its validity and interpretation. This may be a specialised branch of the law, but some knowledge of it is inevitable for the draftsman of a transnational agreement.