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Coping with Foreign-Law Impediments to the Export Licensing of United States Technology

I. Think Things, Not Words

Any lawyer who wishes to deal effectively with the transnational application of industrial innovation must bear constantly in mind a wise admonition of Mr. Justice Holmes: Think things, not words.¹ Of that lawyer's intellectual tasks none is more difficult than discerning the actual, honest-to-goodness *things* that are obscured by the deceptive *words* of that lulling, meretricious phrase, "the transfer of technology."

That insidious phrase suggests that "technology" is some sort of chromosome consommé that can be drawn from the veins of one society and injected into the arteries of another, where it will faithfully replicate the skills of the transferor in the activities of the transferee. Worse: by using the one-way verb "transfer," the phrase hints that transfusing the magic consommé, like giving alms, requires only action by the transferor and entails no corresponding effort on the part of the transferee.

That suggestion and hint are false; worse than false, they are inimical to a mutually beneficial relationship between the two aggregations of mankind most concerned with the so-called "transfer of technology." One aggregation is the "North" (meaning: Western Europe, the United States

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1. "We must think things not words, or at least we must constantly translate our words into the facts for which they stand, if we are to keep to the real and the true." O. W. HOLMES, COLLECTED LEGAL PAPERS, 238 (1899).

"How few people think accurately—and think things not words." 1 HOLMES-LASKI LETTERS 738 (1925).

and Japan, give or take Canada, Australia and New Zealand), which has been able, thus far, to harness the Promethean forces that were born of the Western Renaissance and matured in the Industrial Revolution. The other aggregation is the "South"—nations that did not directly experience the Western Renaissance or the Industrial Revolution and have not successfully simulated the Western institutions those cultural cataclysms produced.

The conventional economic wisdom tells the South that it should envy the high material mass-consumption of the North and, to achieve it, should buy, borrow, beg or steal a good stiff injection of the magic chromosome consommé, Northern technology. I suspect that the conventional wisdom is wrong. My hunch is that, when the verdict of history is in, even if the jury decides that the North's high material mass-consumption was sustainable and worthy of envy, the verdict will conclude that the South never could have reached economic parity with the North merely by injections of Northern technology; that to rival the North the South needed to develop the cultural attitudes—scientific curiosity, entrepreneurship, and popular government—from which the Northern technology sprang; in short, that the South needed to ignite a Renaissance and endure an Industrial Revolution of its own. If that is correct, the resources of the South would now be better applied to reading the Great Books, and to developing a few homegrown Jeffersons, Edisons and Henry Fords, than to financing quick fixes of magic Northern consommé.

Of course my hunch may be incorrect. The answer, in any case, will never be reduced to verdict; it is the nature of history that the jury is always out. Therefore, in considering foreign-law impediments to the export of U.S. technology, instead of passing a patronizing Northern judgment on the South with future hindsight it will be more constructive to take the present South at its present words—the familiar words that the South needs "the transfer of technology" from the North—but to think carefully about the things those words really represent.

II. But First, Three Ghusls

Before a believer enters the mosque for Friday prayer he performs a *ghusl*; that is, he washes himself. Whether a *ghusl* works by cleansing his soul or merely by getting the sand out of his eyes, I leave to the believer; but either way it helps.

When it comes to understanding transnational enterprise we Americans have a lot of sand in our eyes. Before we enter the mosque of technology-transfer-analysis we would benefit from three *ghusls*.

A. AMERICA THE SLOTHFUL

The first *ghusl* is to wash away the misperception that the United States is a paragon of productivity. The facts, alas, are otherwise.

Between 1950 and 1985 America's share of world exports plummeted from 21 percent to 12.6 percent.² Our export trade balance deteriorated consistently over the last half-decade, reaching in 1985 a record annual deficit of \$124.3 billion.³ As a component of that deficit our trade balance in high technology goods has remained positive but is shrinking rapidly; it peaked at \$23.6 billion in 1981 but declined each year since, to an estimated \$5 billion or less in 1984.⁴

Our lagging competitiveness in trade correlates directly with our poor record in research, productivity and savings. We invest less in civilian research and development than does any of our major industrial competitors; our nonmilitary R&D expenditures now run about 1.5 percent of GNP compared to 2 percent for them.⁵ In manufacturing productivity the United States since 1977 has grown at a slower rate than Japan, France or West Germany, and by 1983 ended up a poor third to West Germany and France among the industrial powers.⁶ During 1983 the United States had the lowest rate of personal savings among developed nations: only 5 percent of GNP compared to 23 percent in Italy, 21 percent in Japan, 14 percent in West Germany and 13 percent in Canada.⁷ Not surprisingly, in 1984 our gross fixed investment amounted to only 16 percent of GNP, compared to 28 percent for the Japanese and 20 percent for West Germans.⁸

2. BUS. AM. May 2, 1983, at 9; ECONOMIST, Oct. 19, 1985, at 75 (second quarter 1985 figures).

3. On a C.I.F. basis, \$148.5 billion. ECONOMIST, Oct. 19, 1985, at 75; N.Y. Times, Mar. 12, 1986, at 30.

4. U.S. HIGH TECHNOLOGY TRADE AND COMPETITIVENESS (U.S. Department of Commerce, 1985) v.

On a scale that measures "international expansion in technology" by a combination of trade, overseas investment and export licensing in high technology products, during 1974-1983 the United States' rate of expansion was lower than those of Japan, West Germany, France and the U.K., and actually declined. HEIN, THE WORLD ECONOMY IN THE 1980's (The Conference Board, 1985) 20.

The ably-presented study, AN ASSESSMENT OF COMPETITIVENESS IN HIGH TECHNOLOGY INDUSTRIES (U.S. Department of Commerce, February 1983), came to a similar conclusion: "Over the last twelve years, there has been a decline in the international market position of U.S. high technology industries from a position of dominance to one of being strongly challenged." *Id.* at iii.

Nevertheless, in 1983 the United States registered a \$4.2 billion net favorable balance of payments in the licensing and assignment of patents, trademarks and copyrights. BUS. AM., Mar. 19, 1985, at 3.

5. ECONOMIST, Nov. 9, 1985, at 22.

6. *Id.*

7. *Id.*

8. *Id.*

Those statistics do not profile a world leader in industrial innovation. Surveying them, a prominent U.S. economist recently concluded that "The huge technological edge enjoyed by Americans in the 1950s and 1960s has disappeared. Whereas America once had effortless economic superiority, it is now faced with competitors who have matched its economic achievements and may be in the process of moving ahead of it."⁹

Within the United States the economic record of Texas has of late been even less impressive. Consider, for example, the recent congressionally-commissioned analysis by the S.M.U. Business School of the declining export performance of the three industrial sectors considered basic to this state: energy, high tech and agriculture.¹⁰ In oil field hardware—an industry that in 1982 was 54 percent dependent on export sales and in which Texas has traditionally accounted for upwards of 75 percent of all U.S. employment¹¹—U.S. employment dropped from nearly 100,000 in 1982 to slightly more than 60,000 in 1984¹² and the percentage of the U.S. market occupied by imported tubular goods rose from 9.2 percent in 1975 to 70 percent in 1985.¹³ Between 1980 and 1984, 106 American refineries closed, twenty-three of them in Texas.¹⁴ Nearly 13,000 Dallas-area semiconductor workers were laid off during the first nine months of 1985.¹⁵ Between 1981 and 1983 the real value of Texas agricultural exports fell by more than 48 percent in cotton, 31 percent in wheat, and 21 percent in rice.¹⁶ The S.M.U. study concludes that, because Texas is disadvantageously vulnerable to foreign markets, "the competitive pressures on a wide range of Texas industries . . . are sure to intensify in the years ahead."¹⁷

It is a chastening picture. If we Americans persist in our improvidence the United States will become a net importer of new technology, not its innovative source.

B. THE INFRA-GREEN MACHINE

The second *ghusl* that we should perform before entering the mosque of technology-transfer-analysis is to wash from our eyes the false image

9. *Id.* at 21 (Lester Thurow).

10. Weinstein & Gross, *The Vulnerability of the Texas Economy to World Trade Patterns* (Center for Enterprising, Edwin L. Cox School of Business, Southern Methodist University, Oct. 1985).

11. *Id.* at 11, Fig. 2.

12. *Id.* Fig. 1.

13. *Id.* at 15.

14. *Id.* at 19.

15. *Id.* at 24.

16. *Id.* at 27.

17. *Id.* at 39.

of the United States as the world's most ardent champion of free trade. For this *ghusl* water is not enough. We also need a global perspective in which to wash.

Suppose we ship out on a space shuttle and while orbiting the earth check out the latest gadget on board. It has a small videoscreen and a large barrel aimed earthwards, brightly painted in the inspiring colors of new one-thousand-dollar bills. This is the famous Infra-Green Machine. It senses all elements of transnational commerce: not merely tangible elements such as goods and people, or quantifiable elements such as value, credit, debt, investment and liability, but—ininitely more important—elements that are both intangible and unquantifiable, such as technology, ideas and cultural attitudes, which dominate all the other elements but unfortunately are invisible to economists and the naked eye.

When you press Button "F" the videoscreen of the Infra-Green Machine lights up with arrowed vectors that show exactly how much freedom each element of transnational commerce has to enter each nation on earth. It is amazing. Looking down the barrel at the world, we see not oceans and continents but intersecting polarities of cultural variation, revealing that every nation is a born-again free trader in some elements of transnational commerce but a die-hard protectionist in all the rest.

The two great polarity-radiuses that we discover are the North and the South. Their vectors tell us that the North freely accepts ideas, credit, technology, most investment and some manufactured goods, but resists agricultural commodities, automobiles, textiles and people. By contrast, the South accepts ideas and some people, but carefully screens all goods and rejects most investment. For imports of credit and technology the South's freedom vectors are rather faint. That tells us that, having already received too much credit, the South would now like to receive more but is nervous of the terms, and that although the South craves technology it is leery of any technology that is linked to foreign investment, high royalties or tough contracts.

Fascinated by the Infra-Green Machine, we now calibrate it to a smaller focus and discover a myriad of subradiuses spider-webbing the larger two. We perceive that, within the North, Japan is rather isolated—hermetically sealed as to people and more mysteriously barriered against goods and investment; that Western Europe is rather middling on all scores; and that the free-trade vectors of the United States are warped by some unusual ideological hang-ups (as evidenced by our antitrust laws, product liability laws, antiboycott regulations, and the embargoing of political enemies like Iran and Libya) that are largely incomprehensible to the rest of mankind. Then we notice that Islam, a subset of the South, accepts many goods (though less investment) but rejects alcohol, pornography and other culturally destabilizing exports from the North. Another Southern subset,

the Marxist states, enthusiastically accept technology (to the point of burglary!) but firmly shut the door on investment, ideas and people, and massively screen all else.

After several enthralled hours at the videoscreen of the Infra-Green Machine, we come to realize three things: *First*, transnational commerce is a many- and subtly-splendored thing, composed of a multitude of quite diverse elements, the most valuable of which are intangible and unquantifiable. *Second*, no nation freely accepts all of the elements. *Third*, if virtue consists of accepting absolute freedom of transnational commerce, every nation, in the eyes of others, sins.

C. TECHNOLOGY AND ENTERPRISE

The third *ghusl* we need to perform is less a washing of our eyes than a scrubbing of our vocabulary. We need to scour the glamour off that misleading word "technology" and see it for what it is.

The beginning of discernment is to realize that technology is only a part of enterprise, and that an enterprise is much greater than the sum of its parts. The success of an industrial technique is realized not in its conception but in its practical application—normally, through manufacture and distribution. In an Adam Smith world the best way to "transfer technology" would be to move the entire enterprise that applies it. Transnationally such a transfer would require absolute freedom of movement, across political boundaries, of *market*, *raw materials*, *corporate structure*, *labor*, *management*, *finance*, *ownership*, *administration*, *distribution*, and (only rather incidentally) the *technology* itself. In the real world such freedom of movement is, of course, a political impossibility. Even within the United States, which through political federalism achieved the world's largest economy, the chauvinistic jockeying of states subtly distorts a theoretically untrammelled domestic market. The European Economic Community has even more stubborn internal obstacles to overcome. Outside the internal markets of the United States and the EEC, barriers to the transnational movement of enterprise make a quantum jump.

When a business crosses national borders today, it finds that it must leave behind many of the elements that made it a success at home. Its *market* and sources of *raw materials* necessarily change. Whether by operation of law or choice, its *corporate organization* almost inevitably follows suit. It is hardly less certain that its *labor* and *management* will be similarly restricted. Either by direct regulation or as a result of tax differentials its sources of *finance* will be affected. The same may be true of its *ownership*, especially in nations that require minimum percentages of locally held equity. While techniques of *administration* and

distribution may not encounter explicit regulation, they must, as a practical matter, conform to local differences in labor, management and market. Of all the elements of the enterprise it is, in fact, *technology* that remains relatively unscathed. It is as though the receiving nation were saying, "What we really want is your technology. You can't bring in the rest of your business unless you change everything else to suit us."

Now, obviously, all those direct restrictions on the transnational movement of an enterprise constitute indirect restrictions on the transnational movement of the technology that enterprise would apply. In the imposition of really onerous restrictions (minimum percentages of local equity ownership, for example) the technology-hungry nations of the South are infinitely greater offenders than the technology-productive nations of the North. Hence the paradox that the nations that most vigorously demand access to foreign *technology* are the very nations which, by restricting the entry of foreign *enterprise*, do most to deny themselves the technology they seek.

III. Foreign-law Impediments

A. A CHAOS

When enterprises are frustrated by foreign law from moving bodily across national frontiers, they achieve economic impact abroad in three principal ways: exporting goods, exporting services and exporting knowledge. It is the last—the export of knowledge—that concerns us as, with perceptions sharpened by our three *ghusls*, we now examine foreign-law impediments to the export of U.S. technology.

It is a chaos: some 160 separate nations plus a dozen supranational affinity groups, each with its own intricate web of legislation; behind each web a baffling maze of connivance and politics; the global whole capillaried by the tunneling meanders of thousands of bilateral and multilateral treaties. To learn the technology-impediments of any nation is the labor of years; describing them all is an encyclopedia. Therefore we will not look for trees, but forests, in search of general techniques that will help us to cut timber anywhere.

We will consider three impediment-forests in particular, because they typify nations at three distinct stages of what the economists call "development." They are Western Europe, the world's first industrialized region; Japan, fully industrialized since World War II; and Latin America, which lusts after industrialization but has not achieved it. Let us examine the impediments of each of those forests from the viewpoint of a U.S. exporter of technology.

B. THE EUROPEAN ECONOMIC COMMUNITY

Although the Treaty of Rome¹⁸ does not supplant the national industrial property laws of its member states, regulating the licensing of technology to the twelve nations that constitute the European Economic Community is principally a function of Article 85 of the Treaty. The first paragraph of that article prohibits restrictive arrangements that diminish trade between member states. The second paragraph declares that agreements for such arrangements are void. The third paragraph allows exemptions to be granted.

Under that third paragraph the EEC Council issued Regulation 17 of 1962,¹⁹ which required notice of offending agreements but granted a temporary amnesty to those notified by November 1, 1962. The resulting inundation led to the famous "Christmas message" of December 24, 1962,²⁰ in which the Commission listed standard clauses in patent licenses that were not considered to violate Article 85 and therefore did not need to be notified. Those exemptions were redefined in the Patent License Group Exemption, which the Commission issued effective January 1, 1985.²¹ Reflecting the basic policy of the Treaty, the regulatory focus of the Group Exemption is not on commerce within a member state of the Community or on commerce between a member state and the outside world, but only on commerce among member states themselves.

The licensing of technology from U.S. licensors to licensees in the EEC is facilitated by income tax treaties. The United States has such a treaty in effect with each of the twelve member states. Besides establishing reciprocal source-rules those treaties substantially reduce—in most cases, to zero—the tax on royalties and technical service fees paid to U.S. licensors.²²

C. JAPAN

During the four postwar decades of Japan's development as a world industrial power, its regulation of inbound technology licenses has metamorphosed from a system of rigorous prior approval to one of permissive supervision. The change paralleled the maturing of the yen. In 1950, when the yen was a fledgling currency, Japan adopted the Foreign Investment

18. COMMON MKT. REP. (CCH), Sec. 151.

19. OFFICIAL JOURNAL OF THE EUROPEAN COMMUNITIES, Feb. 21, 1962, at 62; COMMON MKT. REP. (CCH), Sec. 2401.

20. OFFICIAL JOURNAL OF THE EUROPEAN COMMUNITIES, Dec. 24, 1962, at 2922; COMMON MKT. REP. (CCH), Sec. 2698.

21. Commission Regulation 2349/84, published in OFFICIAL JOURNAL OF THE EUROPEAN COMMUNITIES, Aug. 16, 1984, at 15; COMMON MKT. REP. (CCH), Sec. 2747.

22. See Table 1. The Spanish-U.S. treaty covers only certain types of income.

Law, which authorized the government to require prior approval of all technology licenses. As the yen became more self-sufficient, approvals became more readily available. In 1980 the Foreign Investment Law was replaced by the Foreign Exchange and Foreign Trade Control Law,²³ under which proposed technology licenses must merely be reported to the Bank of Japan and are considered approved if not vetoed within a waiting period.²⁴

Licensing to Japan is also regulated by the Japanese antitrust law²⁵, which dates from the U.S. military occupation and addresses trade distortions with Yankee rectitude. It is enforced by the Japanese Fair Trade Commission, which has issued guidelines governing transnational contracts for the supply of technology to Japan.²⁶ The Japanese party to such a contract is required to file a copy with the Commission within thirty days after it is signed.²⁷

The income tax treaty between the United States and Japan facilitates U.S. technology licensing by limiting to 10 percent the rate of Japanese tax on royalties and technical service fees paid to U.S. licensors.²⁸ This approximates Japan, as a recipient of technology from the United States, to the tax-favored status of the EEC.

D. LATIN AMERICA

Legislation regulating inbound licensing has reached its "fullest development"²⁹ in Latin America, whose technology laws can be understood better as a series of historically related events than as separate national enactments or a logical whole.

1. *Brazil*

Brazil, a nation of endemic inflation and chronic currency control, was an influential innovator. By an income tax regulation of 1958³⁰ Brazil limited the amount of royalties that would be accepted as deductible. In 1962 there followed the Law on Foreign Investments,³¹ which prohibited the payment of royalties above specified percentages (zero, for patents or trademark royalties to the payor's corporate parent) and required cer-

23. Law No. 65 of 1979.

24. *Id.* at art. 29(2).

25. Law No. 54 of 1947.

26. Guidelines for International Contracts Introducing Technology, May 24, 1968.

27. *Id.* at art. 6(2).

28. See Table I.

29. Richards, *Licensing in the International Field*, in DOMESTIC AND FOREIGN TECHNOLOGY LICENSING 1984 (hereinafter cited as Richards), p. 233.

30. Tax Reg. 436.

31. Law 4131.

tain agreements to be registered with the Central Bank. Present legislation³² includes a long list of forbidden clauses and provides that before any patent, trademark, know-how, or technical service agreement is signed it must be submitted in draft to the powerful National Institute of Industrial Property (INPI), whose approval is prerequisite to the effectiveness of the agreement vis-à-vis third parties or as the basis for the remittance or deductibility of royalties.

2. ANCOM

The Andean Common Market (ANCOM) dates from the 1969 Agreement of Cartagena³³ among Bolivia, Colombia, Chile, Ecuador and Peru. Venezuela joined in 1974. Chile left, for most purposes, in 1976.

ANCOM's principal objectives were duty-free internal commerce and a common external tariff, but the Agreement of Cartagena also pledged "a common system for the treatment of foreign capital and, likewise, systems for trademarks, patents, licenses and royalties."³⁴ The result was Decision 24,³⁵ the 1971 guidelines for the entry of foreign investment, loans, supplies and technology. It made inbound licenses subject to government approval, to be conditioned upon the presence of mandatory clauses and the absence of prohibited ones.³⁶ Local subsidiaries were forbidden to pay or deduct royalties to foreign parents or to credit technology transfers as contributions to capital.³⁷

There are significant national variations in the implementation of those guidelines by legislation of the ANCOM member states,³⁸ but Decision 24 remains an influential prototype of regulation in Latin America and throughout the technology-importing world.

The absence of income tax treaties constitutes a further impediment to technology licensing from the United States to ANCOM member states.

32. Principally, Law 5648 of Dec. 11, 1970, Law 5772 of Dec. 21, 1971, Normative Act No. 15 of Sept. 11, 1975, Normative Act No. 32 of May 5, 1978, Normative Act No. 60 of Mar. 24, 1982, and Normative Act No. 64 of Sept. 16, 1983. These are discussed in Richards, 234-239. See also J. PINHEIRO NETO, *DOING BUSINESS IN BRAZIL*, Ch. 19; and Nattier, *Limitations on Marketing Foreign Technology in Brazil*, 11 INT'L LAW 437 (1977).

33. Reproduced in translation at 8 I.L.M. 910 (1960). The formation of ANCOM is described in Murphy, *Decision 24, Mexicanization and the New International Economic Order: The Anatomy of Disincentive*, 13 TEX. INT'L L.J. 289 (1978), at 290-292. Latin American licensing precedents antecedent to ANCOM are described in Lacey, *Technology Licensing and Industrial Property Licensing: A Legislative Revolution*, 6 INT'L LAW. 388 (1972).

34. Art. 27.

35. Common Regime of Treatment of Foreign Capital and of Trademarks, Patents, Licenses and Royalties, reproduced in translation at 10 I.L.M. 152 (1971). A composite text including amendments through 1976 is reproduced in translation at 16 I.L.M. 138 (1977).

36. Arts. 18-20.

37. Art. 21.

38. National enactments through 1977 are tabulated in Murphy, *The Andean Common Market and Mexico: A Foreign Investment Profile*, 13 TEX. INT'L L.J. 307 (1978).

Their current tax rates on royalties and technical service fees paid to U.S. licensors are disadvantageously higher than those of the EEC countries and Japan.³⁹

3. *Mexico*

Of all Latin American nations, Mexico imposes the most formidable barrier to the export of U.S. technology. That barrier is composed of three correlated enactments of the administration of President Luis Echeverría: the Foreign Investment Law,⁴⁰ the Technology Law,⁴¹ and the Inventions and Trademarks Law.⁴²

Of that forbidding Echeverría Wall,⁴³ the Foreign Investment Law divides all business activities into four categories. The first is reserved exclusively to the state, the second to Mexicans, and in the third foreign ownership is limited to less than 49 percent. In the fourth category percentages of foreign-owned equity are administratively negotiable but with rare exceptions 49 percent has been the rule. The result is to relegate most new foreign investment in Mexico to the rather uninviting role of minority participant in a joint venture dominated by a Mexican majority.

The Technology Law makes registration requisite to the validity of virtually every written instrument that seeks effect in Mexico and transfers, licenses or supplies patents, trademarks, know-how, or the like. The Technology Registry may refuse such registration for seventeen reasons. The most troublesome of those reasons invalidates a license for a term of more than ten years, a license that continues confidentiality obligations after its term, and a license that involves royalties the Registry deems too high. The royalty rates permitted in practice have been, by international commercial standards, rather low. The Technology Law has thus tended to discourage the licensing of top-quality technology to Mexico.

The third revetment of the Echeverría Wall, the Inventions and Trademarks Law, has impeded foreign licensing in high technology fields by reducing the availability, scope and duration of Mexican patents. Inventions in ten broad categories are unpatentable. These include chemical products, pharmaceuticals, fertilizers, pesticides, herbicides, food and

39. See Table I.

40. Ley para Promover la Inversión Mexicana y Regular la Inversión Extranjera, 317 D.O. 5, Mar. 9, 1973.

41. Originally enacted as Ley sobre el Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas, 315 D.O. 45, Dec. 30, 1972; reenacted with amendments as Ley sobre el Control y Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas, 370 D.O. 15, Jan. 11, 1981.

42. Ley de Invenciones y Marcas, 334 D.O. 7, Feb. 10, 1976.

43. The three Echeverría enactments are analyzed in detail in Murphy, *The Echeverría Wall: Two Perspectives on Foreign Investment and Licensing in Mexico*, 17 TEX. INT'L L.J. 135 (1982).

drink. Patents when obtainable are good for ten years only, nonrenewable, and even during that short term are subject to compulsory licensing and lapsing for failure of exploitation. An even more discouraging provision of the Inventions and Trademarks Law is trademark linking, the requirement that on goods manufactured in Mexico a trademark originally registered abroad may not be used alone, but must be joined "in an equally visible manner" with a trademark originally registered in Mexico. That rule, laying in effect a predicate for the expropriation of the Mexican value of the foreign mark, proved so unworkable that its date of effectiveness has been postponed annually ever since the Inventions and Trademarks Law was passed.

Technology licensing from the United States to Mexico is further disadvantaged by the absence of an income tax treaty between the two nations. That leaves unrestricted the high Mexican tax rates on royalties paid to U.S. licensors.⁴⁴

4. *Countercurrents*

There are two countercurrent nations whose receptivity to foreign technology may be a more accurate indicator of future Latin American attitudes than the relative xenophobia of Mexico, Brazil and the ANCOM states.

One is Chile. Having resigned from Decision 24, it now requires inbound licenses to be registered only for purposes of Central Bank remittance approvals.⁴⁵

The other countercurrent nation is Argentina, which introduced a technology-restrictive law in 1971⁴⁶ and reinforced it in 1974,⁴⁷ but reversed the trend in 1976⁴⁸ and in 1981⁴⁹ enacted legislation that eliminated prior approvals, forbidden clauses and royalty ceilings on technology licenses from unrelated licensors.

IV. *Magnatrends*

When we undertake to research and draft a particular outbound license our main foreign-law concern is, of course, the legislation currently on the books of the technology importing nation, but we should not ignore

44. See Table I.

45. Law 19231 of 1971.

46. Decree Law 1748 of 1977, superseding Decree Law 600 of 1974.

47. Law 20794 of 1974.

48. Law 21617 of 1976.

49. Law 22426 of 1981. This legislation is discussed in L. ECKSTROM, *LICENSING IN FOREIGN AND DOMESTIC OPERATIONS*, Ch. 30; and Otamendi, *Major Changes in Argentina*, reproduced at 2 *THE LAW AND BUSINESS OF LICENSING*, 2E-413.

trends in international politics that may be even more influential, in the long run, to the success or failure of the project.

One such trend was the series of resolutions of the United Nations General Assembly that proclaimed a "New International Economic Order." The Declaration on the Establishment of a New International Economic Order,⁵⁰ adopted in 1974 without roll call vote, admonished the developed nations to provide "[p]referential and non-reciprocal treatment," including "the transfer of technology," to the undeveloped world.⁵¹ Its companion "Programme of Action" declared that "All efforts should be made . . . [t]o adapt commercial practices concerning the transfer of technology to the requirements of the developing countries."⁵² The Charter of Economic Rights and Duties of States,⁵³ which passed the Assembly in 1975 over the dissenting votes of only the United States and five of its North European allies, asserted that "[e]very State has a right to benefit from the advances and developments of science and technology"⁵⁴ and "[a]ll States should facilitate the access of developing countries to . . . the transfer of technology . . . in forms and in accordance with procedures which are suited to their economies and their needs."⁵⁵

Reducing that soaring rhetoric to an "international code of conduct for the transfer of technology" was a goal of both the 1974 Programme of Action⁵⁶ and the 1975 Charter,⁵⁷ a task the General Assembly entrusted to the United Nations Conference on Trade and Development (UNCTAD).⁵⁸ So far UNCTAD has failed to achieve a code consensus among the principal contending factions—the so-called Group of 77 (representing the undeveloped world), Group B (the developed nations) and Group D (the Marxist states of Eastern Europe).⁵⁹ The last failure occurred at the 1985 UNCTAD Conference in Geneva.⁶⁰

50. *Reproduced* at 13 I.L.M. 715 (1974).

51. *Id.* at arts. 4(n), 4(p).

52. Programme of Action on the Establishment of a New International Economic Order, Art. IV(d). 13 I.L.M. 720 (1974).

53. *Reproduced* at 14 I.L.M. 251 (1975).

54. Art. 13(1).

55. Art. 13(2).

56. Art. IV(a).

57. Art. 13(4).

58. U.N. General Assembly Resolution 32/188 of Dec. 19, 1977.

59. Competing draft outlines of such a code are reproduced at 14 I.L.M. 1329 (1975) (Group B), 14 I.L.M. 1333 (1975) (Group 77), and 14 I.L.M. 1344 (1975) (Group D). A "tentative composite draft" is reproduced at 17 I.L.M. 453 (1978); for competing draft texts see 17 I.L.M. 462 (1978) (Group of 77), 17 I.L.M. 473 (Group B), and 17 I.L.M. 481 (Group D). At 19 I.L.M. 773 (1980) is reproduced a "draft code" prepared by the UNCTAD secretariat that is bracketed to show competing language offered by the various groups. For a discussion of recent code negotiations, see Roffe, *Transfer of Technology: UNCTAD's Draft International Code of Conduct*, 19 INT'L LAW, 689 (1985).

60. 2 INT'L TRADE REP. 795 (1985).

Meanwhile the United States is leading two counteroffensives for technology exporters in preparation for the round of General Agreement on Tariffs and Trade (GATT) negotiations in Geneva next September. One is to achieve GATT agreement on a reduction of national barriers to transnational services, which often involve high technology exports in which developed nations excel.⁶¹ The other is for a Counterfeiting Code to outlaw the pirating of goods patented, trademarked or copyrighted in the developed world.⁶² Some of the most chronic counterfeiting occurs in nations that are most restrictive of inbound technology licensing, because they tend to have the weakest industrial property laws.

V. Coping

How can an American lawyer most effectively cope with the formidable impediments to the export of U.S. technology that are presented by foreign law? Experience suggests the following approach.

A. "TRANSNATIONAL LICENSING," PLEASE!

In thinking about and describing the task, the first rule is: try to avoid that deceptive phrase, "the transfer of technology." It is at best misleading and at worst an accomplice to the overweening Third World pretensions of the "New International Economic Order."

Think and say "transnational licensing" instead. It is remarkable how well that honest label scours the false glamour off the endeavor and slots the participants into their proper roles.

B. WHY?

Transnational licenses are enormously diverse in purpose. It is essential for the lawyer to know exactly what his client—at the highest levels of management—hopes to accomplish with the particular license the lawyer is asked to research and draft. Aftertax royalties? Market sharing? A toehold for more extensive foreign enterprise? Pretax distributions from an overseas subsidiary? Showcase cooperation with a foreign government, deliberately unprofitable, to sell a bigger project? Or simply sorting out global R&D costs among foreign affiliates of a single U.S. enterprise?⁶³

61. *ECONOMIST*, Nov. 30, 1985, at 67; *BUS. AM.*, Nov. 25, 1985, at 14.

62. *BUS. AM.*, Mar. 18, 1985, at 3; *N.Y. TIMES*, Dec. 30, 1985, at 22 and Jan. 23, 1986, at 23.

63. For discussions of the myriad purposes of transnational licenses, see Arnold, *Basic Considerations in Licensing*, in *DOMESTIC AND FOREIGN TECHNOLOGY LICENSING* 1984, 35; and Taraglino, *Foreign Licensing and Joint Venture Arrangements*, in *FOREIGN BUSINESS PRACTICES* (U.S. Department of Commerce 1985) 58. Cohen et al., *NONTARIFF BARRIERS*

The ultimate *why* of the license is often not apparent to the lawyer from the terms of his assignment. Determining that *why* may require considerable persistence and tact on his part. But determine it he must, if the license is to accomplish its intended purpose, and especially if the license is to deal effectively with the foreign-law impediments that would otherwise frustrate that purpose.

C. THE GOLD MINES

The third rule is to deal effectively with foreign counsel and sources of foreign law, each of which is a gold mine of assistance that will be squandered if not quarried thoughtfully and in the correct sequence.

Faced with the task of preparing an outbound technology license, the inexperienced American lawyer grabs a telephone and asks foreign counsel how to do it—or worse, asks foreign counsel to draft it in the first place. The more experienced technique is first to check out the foreign law problems generally, from secondary sources of foreign law available in the United States, in order to sense the history and trend of applicable foreign legislation and to visualize the intended license in the context of the “forbidden clauses” the current law proscribes. That technique yields the general contour of the problem and frequently suggests factual alternatives to “forbidden” terms.

Having done his homework, the experienced American lawyer then consults foreign counsel, but first he chooses thoughtfully which foreign counsel to consult. The world of transnational technology licensing is tiny. North-to-South lawyer relationships, in particular, are a short funnel with a wide entry and an extremely narrow spout. In a typical technology importing nation only a few local law firms advise a large proportion of all U.S. licensors. There are inevitable predispositions toward the status quo. If Lic. Fulano has negotiated fifty licenses with the Technology Registry for his good and continuing client, ABC Corporation, and settled them all at a royalty of 5 percent, how fiercely will Lic. Fulano fight for a royalty of 10 percent when he tackles the Technology Registry tomorrow on behalf of his new single-license client, XYZ Corporation? The experienced American lawyer ponders that problem a while, and decides how it should be handled, before he calls Lic. Fulano up.

Having established the relationship, the American lawyer initiates the work by sending foreign counsel a draft license—preferably the entire wish-list, amputated only as to the most intractable “forbidden” clauses. Meanwhile foreign counsel sends, for his American colleague to study,

TO HIGH-TECHNOLOGY TRADE (1985) considers licensing strategies in the larger context of high technology exports.

the full text of the current law. It should be in the original language, if (as is ideal) the American lawyer can read it. If the text is in translation, foreign counsel should personally vouch for its accuracy. The full-text law will probably reveal some startling variance from the secondary sources the American lawyer consulted first.

American and foreign counsel are now both well-equipped to communicate effectively toward a well-drawn license.

D. TAXES

For a U.S. licensor, determining the economic consequences of a transnational license involves highly sophisticated knowledge, and deft meshing, of the foreign and U.S. taxes the royalties or other compensation will attract. Frequently that necessitates the participation of additional tax specialists on both the U.S. and foreign sides of the licensor's team. This greatly increases the problems of team communications, which now may have to span not only linguistic and national lines, but professional boundaries as well.

Project-negating cost determinations and much wasted drafting can result if the net tax assumptions of a license are not articulated and verified up front. Particularly in the case of licensing to a nation that does not have a tax treaty with the United States, secondary and translated information concerning foreign taxes is frequently misleading, outdated or incomplete. Similarly the utility of foreign tax credits to a particular licensor should not be left to assumption. In sum: research and professional determination of the net U.S. and foreign tax consequences to the U.S. licensor should be not the last, but one of the first, items on the checklist of any outbound license.

E. LARGER TALENTS

From the standpoint of a U.S. client the most valuable professional attribute of a good American international lawyer is his practiced intuition of political and economic trends abroad. That attribute is no less useful in outbound licensing than in other fields of transnational enterprise.

From the vantage point of his experience the international lawyer sees particular national events and enactments as components of regional patterns or historical trends that may be more reliable, as indicators of the health and longevity of a given license, than the signed paper. Because of his general and more objective perspective the American lawyer is often better situated to predict events in a given foreign country than is his foreign colleague, whose entire personal frame of reference is focused there. (The same is true, in reverse, of the foreign counselor to a foreign

licensor to the United States. We are all prisoners of our propinquities.) When contributing to an export of U.S. technology his specific skills in research, communication and drafting, the licensor's American lawyer should not neglect also to bring to bear such larger talents as he commands.

Table 1

Top Bracket Income Tax Withholding Rates in Selected Countries on Royalties and Technical Assistance Fees Paid to U.S. Nonresident Persons in 1985.

Group	Country	Income Tax Treaty with U.S.?	Withholding Rates (%)		
			Film royalties	Other royalties	Technical Assistance Fees
(a) E.E.C.	Belgium	yes	3*	0*	0*
	Denmark	yes	0	0	0
	France	yes	5	5	5
	Greece	yes	4.6*	0*	0*
	Ireland	yes	0*	0*	0*
	Italy	yes	0	0	0
	Luxembourg	yes	0*	0*	0*
	Netherlands	yes	0*	0*	0*
	Portugal	yes	16.8*	16.8*	16.8*
	Spain	PT	5*	14*	14*
(b) (c) ANCOM	United Kingdom	yes	30	0	0
	West Germany	yes	0	0	0
	Japan	yes	10	10	10
	Brazil	NIF	40	25*	25*
	Bolivia	no	30*	30*	30*
	Colombia	PT	20*	20*	20*
	Ecuador	no	40	40	40
	Peru	no	71.5*	71.5*	71.5*
	Venezuela	no	25	40	40
	Mexico	no	42*	42*	42*

*Subject to variations, deductions or additional tax.

NIF Treaty signed but not in force.

PT Treaty covers only specified types of income.

[Source: *Foreign Tax and Trade Briefs International Withholding Tax Treaty Guide* (Matthew Bender, November 1985 revision)]