North Carolina Journal of International Law

Volume 6 | Number 2 Article 4

Spring 1981

Planning & Drafting of International Licensing Agreements

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Planning & Drafting of International Licensing Agreements

by S. John Byington*

I. Introduction

International licensing agreements are very important to the business world, both to the small manufacturer contemplating an initial foray into the world market and to the larger corporation with firmly established subsidiaries abroad. This article focuses on the more practical aspects of the planning and drafting of such international licensing agreements. Because most U.S. companies participate in these arrangements as the licensors of technological know-how, it is from that perspective that this article has been written. This article will illustrate how, through analysis of objectives and attention to external constraints, the prospective American licensor can most advantageously draft the technology transfer agreement.

II. Advantages of Licensing Arrangements

The appeal of the licensing arrangement as a mode of transferring technology has been enhanced in recent years by a confluence of political and economic trends. While the number of foreign acquisitions by U.S. industrials declined during the 1970's,[1] during the same decade those companies' earnings of royalties and fees from licensing agreements increased substantially. In 1967, the earnings from such arrangements were $1.5 billion; in 1978 receipts totalled some $5.4 billion.[2] These figures reflect in part the growing number of political obstacles confronting U.S. direct investment abroad. Protective tariff and import restriction policies adopted by many nations have also led small manufacturers, who in the past relied primarily upon export policies, to seek new methods of transferring goods and technologies.

Why are U.S. companies, especially manufacturers, turning to the licensing agreement as a substitute for, or supplement to, more tradi-

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1 Daniels & Patil, *U.S. Foreign Acquisitions: An Endangered Species?*, 20 MANAGEMENT INT'L REV. 25 (1980).

2 Kroner, *U.S. International Transactions in Royalties & Fees, 1967-1978*, SURVEY OF CURRENT BUS., Jan. 1980, at 29.

tional modes of conducting international business? Three reasons come immediately to mind:

1. the licensing agreement requires minimal capital investment;
2. it provides income to the licensor in the form of royalties, disclosure, and technical assistance fees; and
3. it enables U.S. manufacturers to benefit from a reverse flow of technology.

First, the licensing agreement allows the American manufacturer to invest substantially less capital in the participating foreign enterprise than is required by the establishment of a wholly or partially owned subsidiary. The risk of loss to the licensor due to political upheaval in the host country is, therefore, significantly reduced. The minimal capital requirements also serve to broaden the spectrum of those domestic manufacturers able to fully exploit potential foreign markets. The small company with limited capital resources may, through licensing arrangement, test the marketability of its services, know-how or products prior to committing itself to heavy capital investment abroad. Furthermore, because less capital is needed in order to gain access to foreign markets, more dollars can be devoted by the American manufacturer to the research and development so vital to continuing technological innovations and leadership.

Second, licensing agreements provide a steady flow of income to the licensor in the form of royalties, disclosure fees, and technical assistance fees. Significantly, such income is sometimes exempted from currency restrictions.[3] Licensing fees may also receive tax treatment preferable to that afforded the income and dividends of corporate subsidiaries.[4] While industrialized nations tend to impose relatively high taxes on corporate income, they often have low withholding taxes on the royalties paid by resident licensees to foreign licensors.

Third, innovations and refinements of know-how are increasingly the result of licensee alteration of the transferred technology. American companies, are, therefore, fully cognizant of the benefits derived from licensing agreements with provisions for a reverse flow of technology. In addition to enhancing their competitive edge over alternative sources of comparable technology, access to the ideas, expertise, and ingenuity of

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[3] Fisher, *Foreign Licensing Check List*, 51 T.M. REP. 470, 470 (1961).

[4] This is particularly the case where, with prior approval from the Internal Revenue Service, the licensors make the technology transfer package available to the foreign enterprise in exchange for equity shares. Income from the transaction then may be treated as long-term capital gain. *See* Jepsen & Zenoff, *How to Boost Profits from Your Foreign Licensing Agreement*, BUS. ABROAD, Dec. 1968, at 35. Tax laws of the particular host government and any tax treaties should be reviewed by the potential licensor prior to entering the licensing agreement. For more information on recent developments in the tax treatment of royalties and disclosure fees by the United States and various international groups, *see* Patrick, *A Comparison of the United States and OECD Model Income Tax Conventions*, 10 LAW & POL'Y INT'L BUS. 613, 667 (1978); Surrey, *Reflections on the Allocation of Income and Expenses Among National Tax Jurisdictions*, 10 LAW & POL'Y INT'L BUS. 409, 423 (1978).

the licensee may lead to a significant reduction in the licensor's research and development expenditures.

As previously noted, the merits of conducting international business through licensing arrangements are substantial. Drawbacks, however, do exist. Of concern to some American corporations is the lack of management control over the licensee's manufacturing and marketing operations.[5] Additionally, considerable antitrust problems may arise in the execution of licensing agreements when restraints of questionable propriety are placed upon a licensee's use of transferred technology.[6] Fortunately for the prospective licensor, in most business and legal transactions these pitfalls may largely be avoided through preliminary planning and precise draftsmanship of the licensing agreement.

III. The Licensing Agreement

Essentially, the international licensing agreement is a contract which transfers to a foreign enterprise technology and rights in the form of patents, trademarks, know-how, and trade secrets. Until recent years, these agreements generally provided for the licensing of patent rights to a technical innovation or product. In these patent agreements, the licensor would basically covenant not to sue the licensee for infringement under the patent claims.

Today, however, the proprietary element most often the subject of licensing agreements is technological know-how.[7] While no conclusive definition of know-how can be stated, it is usually deemed to refer to the sum of knowledge, skills, methods, and other technical information necessary to the manufacturing process, which, while not patented, is not generally known or accessible in the industry.[8] Know-how typically includes such information as recipes, blueprints, formulae, design layouts, patterns, operating instructions, and a host of specifications, all of which are valued for the competitive advantage in the industry they bestow upon the recipient.

Furthermore, the licensing agreement of today, rather than transferring know-how in isolation from other aspects of the total manufacturing process, may deliver an entire "technology package," designed to assist and guide the licensee enterprise through each production stage. Such a package would typically include: plant layout designs; construction, raw

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[5] Travaglini, *Foreign Licensing and Joint Venture Arrangements*, 4 N.C.J. INT'L L. & COM. REG. 159, 160 (1979).

[6] *See* Kirkpatrick & Mahinka, *Antitrust and the International Licensing of Trade Secrets and Know-how: A Need for Guidelines*, 9 LAW & POL'Y INT'L BUS. 725 (1977); Lipson, *Antitrust Problems in Foreign Commerce*, 18 PRAC. LAW., Dec. 1972 at 57; Payne & Stroup, *U.S. Antitrust Aspects of the International Transfer of Technology*, 5 N.C.J. INT'L L. & COM. REG. 91 (1980).

[7] *See generally* Brunsvold, *An International Licensing Agreement*, 4 ALI-ABA COURSE MATERIALS J. 103 (1979-80); Fisher, *supra* note 3; Unkovic, *Negotiating and Preparing an International Licensing Agreement*, 25 PRAC. LAW., Jan. 15, 1979, at 77.

[8] *See generally* Kirkpatrick & Mahinka, *supra* note 6; Payne & Stroup, *supra* note 6; UNIDO *Guidelines for Evaluation of Transfer Technology Agreements*, U.N. Doc. ID/233 (1979) 11-25.

materials and equipment requirements; machinery testing, repairs and maintenance; quality control procedures; and personnel training. These packages are particularly attractive to those licensees located in developing nations, who seek to obtain internationally competitive technology and production capabilities as quickly as possible.

IV. Planning and Drafting

A. *Introduction*

As in all business transactions, the astute licensor will engage in considerable planning activities prior to the actual drafting and execution of a licensing agreement. Development of a corporate licensing strategy, in which the objectives sought to be maximized are outlined and the complications which may arise are analyzed, is a prudent first step for any licensor, whether it be a conglomerate or a small manufacturer. Assuming that the American licensor, having made the threshold decision to license proprietary know-how, has selected a foreign enterprise licensee with adequate market credentials, then the negotiation and drafting of select provisions of the agreement should proceed.

B. *Provisions*

The licensor, who for tactical reasons might be well advised to present the first draft of the agreement, should attempt to secure all of the following provisions in any licensing agreement.[9]

1. Whereas Clause—As a preamble to the agreement proper, it should include an encapsulation of the general understanding of the parties, specification of the parties and of their capacity and willingness to perform, and a means for revision of the terms of the agreement in light of changing circumstances. Precise drafting of this clause may prevent future complications, based on a misunderstanding of terms or intentions between the parties.

2. Tenure—The agreement should be for a fixed, long term. A long term allows the licensor to amortize the initial research and development expenses over the term of the contract. Provision should also be made, however, for predetermined times at which the parties might escape obligations of the contract without incurring liability.

3. Definitions—Clear and precise definitions of the terms of the licensing contract should be set forth. Definitions of the substance of the technology transferred, whether patent, trademark, or proprietary know-how, should be stated, as well as definitions of transmittal arrangements. Transmittal arrangements are procedures by which the technology is to

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[9] For an example of a prepared licensing agreement, *see generally* Brunsvold, *supra* note 7.

be transferred from licensor to the licensee.[10]

4. Applicable Law—It is to the licensor's advantage that the contract be executed in the United States and that the law of the state in which the American company has its principal place of business be controlling. Under present practices, parties to a licensing agreement are free to choose a specific law to govern their relationship.[11] By providing for U.S. law to govern the contract, licensors have an advantage. The licensors have familiarity with legal ground rules and uniformity in execution and interpretation of all their licensing agreements.

The licensing agreement should also provide that the licensee will obtain all host government licenses and comply with all foreign government regulations in the administration of the terms of the contract. In the event that a registered user agreement[12] is required, the licensing contract should provide for the execution thereof by the parties.

5. Quality Control—Particularly where the technology package transferred to the licensee confers the right to use licensor trademarks and tradenames, the licensor should, through the agreement, maintain rigorous control over quality assurance procedures. Typically, the licensor should be allowed to inspect the equipment, production records, and manufacturing facilities of the licensee periodically. Furthermore, the licensor should expressly retain control over all design changes, modifications, and quality standards of the transferred goods.

Depending upon the bargaining position of the parties, the licensor should seek to obtain a broad power to terminate the licensing arrangement whenever, in his judgment, the licensee's production is such that it adversely affects the licensor's best interest.[13]

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[10] *See generally* UNIDO *Guidelines for Evaluation of Transfer Technology Agreements, supra* note 8; Unkovic, *supra* note 7.

[11] It is important to keep in mind, however, that in adopting a finalized international Code of Conduct on Transfer of Technology, the United Nations Conference on Trade and Development (UNCTAD) will most probably follow recommendations of the Group of 77 which call for application of the licensee's national law in all contracts concerning technology transfer. *See* Revised Text of Draft of Outline of an International Code of Conduct on Transfer of Technology: Submitted on Behalf of the Experts from the Group of 77, Annex 1, UNCTAD Doc. TD/AC.1/4 (Nov. 30, 1976). For more information on UNCTAD and EEC Draft Codifications affecting party autonomy in licensing, *see* Dessemontet, *Transfer of Technology Under UNCTAD and EEC Draft Codifications: A European View on Choice of Law in Licensing*, 12 J. INT'L L. & ECON. 1 (1979).

[12] Registered user agreements are required by many developing countries before a technology transfer agreement will be deemed enforceable and legal by the host government. Typical of such a regulation is that of Mexico which requires compulsory registration of all licensing agreements with the National Registry for the Transfer of Technology. Registration, which establishes that the "permitted [registered] user" is the owner of limited proprietary rights within the territory for the particular class of goods or technology, enables the host government to control the price, type and quality of technology that is introduced within its national borders. *See generally* Barnes, *Technology Transfer Rules: A Study in Comparative Law*, 3 B.C. INT'L & COMP. L. REV. 1, 18 (1979).

[13] Unkovic, *supra* note 7, at 81.

6. Secrecy Clause—Because much of the value of the licensor's transferred technology lies in its confidential nature, a secrecy provision is fundamental to the well-drafted licensing agreement. This provision should at a minimum recite the confidential nature of the know-how and set forth the requirement that such confidentiality be strictly maintained. The cautious licensor should demand that appropriate employees and independent contractors of the licensee sign agreements prohibiting disclosure.

7. Assignability and Sublicensing—The agreement should specify whether sublicensing or assignment of the contract rights will be allowed and, if so, under what conditions. It is advisable that the licensor, in order to maintain control over the use of his proprietary know-how, patents, or trademarks, restrict the licensee's right to assign or sublicense to those instances in which express consent of the licensor has been obtained.

8. Grant-backs—In a grant-back provision, the licensee agrees to transfer back to the licensor information and nonexclusive rights to any future technical improvements of the licensor's know-how or patent that the licensee may develop. When such a grant-back is non-exclusive, and where the licensor has similarly agreed to furnish the foreign enterprise with technological information during the term of the contract, the provision appears to be equitably and validly drafted.

Because anti-trust problems may arise, the licensor should exercise great care while drafting provisions of this nature. Generally, a rule of reason is followed to determine the validity of grant-back provisions. If it is reasonably necessary to protect the licensor, is not a disincentive to licensee's innovation, does not extend beyond the scope of the transferred technology, and does not otherwise unreasonably restrict competition, then a grant-back will probably be deemed valid.[14]

9. Royalties—Most licensing agreements generate income in the form of royalties. These payments to the licensor are generally made in two forms:

> i. A single "lump sum" payment at the time of the initial technology transfer; or
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> ii. A combination of initial payment credited against a set number of units produced via the technology, and a "running" royalty per unit produced over the term of the agreement.[15]

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[14] Payne & Stroup, *supra* note 8, at 109. *See also* Transparent-Wrap Machine Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947); Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648 (D.S.C. 1977), *modified per curiam*, 594 F.2d 979 (4th Cir. 1979). *See generally* Chevigny, *The Validity of Grant-Back Agreements under the Antitrust Laws*, 34 FORDHAM L. REV. 569 (1966); Wallace, *Overlooked Opportunities—Making the Most out of United States Anti-Trust Limitations on International Licensing Practices*, 10 INT'L LAW. 275, 281 (1976).

[15] Unkovic, *supra* note 7, at 81.

For a variety of reasons, the running royalty has enjoyed greater appeal as the form of payment to licensors.

The royalty amounts, which are usually formulated against the sales price or sales value of the good, are determined by a variety of factors, including:

i. The relative bargaining positions of the parties;
ii. Industry-wide standards and practices;
iii. Extent of territorial scope in the license; and
iv. Value of the proprietary information transferred.[16]

The licensor, of course, should seek to obtain royalties that are both reasonable and recoverable. To this end, the well-drafted licensing agreement should also contain clauses which:

i. Allow for future renegotiation of the royalty payments at periodic intervals;

ii. Assure a minimum guaranteed annual return to the licensor which is reasonable and fair to both parties. It should be noted, however, that the licensor should consult local law on this point as the regulatory agencies of many foreign countries do not permit minimum foreign royalty clauses;

iii. Allow the licensor to cancel the agreement should it, due to unforeseen circumstances, become impossible to remit currency to the United States; or, in the alternative, provide for mandatory deposits in local currency in the licensor's name by the licensee; and

iv. Enable the licensor to terminate the agreement upon the insolvency or bankruptcy of the licensee, with reciprocal rights extended to the licensee.

Additionally, some licensors may opt to receive, in lieu of royalty income, corporate shares in the licensee manufacturing enterprise. This equity interest may be favored because it assists the licensor in maintaining control over the venture.

10. Service Fees—In addition to provisions which assure the licensor a recovery of reasonable and fair royalties, the licensing agreement should also contain a clause which provides remuneration for services rendered by the licensor to the licensee enterprise in furtherance of the goals of the agreement. The agreement should indicate rates of remuneration for such services as technical assistance, personnel training, and management and engineering consultancy services.

11. Arbitration—The potential for disputes arising between parties to international licensing agreements is considerable. Despite careful drafting and outlining of the parties' intentions, misunderstandings often occur due to cultural and linguistic differences. It is usually desirable, therefore, to provide for arbitration in such an event.

Arbitration is recognized in most countries as a legal substitute for

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[16] *See generally* Fisher, *supra* note 3, at 472-76; UNIDO *Guidelines for Evaluation of Transfer Technology Agreement, supra* note 8.

lengthy judicial dispute settlement. Once incorporated into the licensing agreement, the arbitration clause should either specify procedures to be followed or designate the use of a recognized and reputable arbitration association, such as the American Arbitration Association or the International Chamber of Commerce.

12. Termination Rights—As noted earlier, a separate clause permitting early termination upon the occurrence of certain contingencies is very common in the licensing agreement, and is desirable for the U.S. licensor. Such contingencies include the bankruptcy or insolvency of either party, failure to adopt quality control procedures, and production in such a manner as to adversely affect the licensor's interests. In any case, the licensing agreement should provide that in the event of termination, all patents, trademarks, and technical assets are assigned to the licensor. The American licensor will also want to make sure that the agreement includes a "momentum clause" to ensure that, in the event of termination of the agreement, the licensor will continue to enjoy royalties on those inventories generated during the contract period.

V. External Constraints

In the preceding text, the objectives of the licensor were, to a certain extent, treated as if they were formulated in a vacuum. In reality, the final terms of the licensing agreement are the end product of a bargaining process in which the licensee enterprise is acquiring an increasingly leveraged position. The objectives of the prospective licensee and its host government may often be diametrically opposed to those of the licensor. Additionally, the licensor will be well advised to tailor his objectives to those deemed valid under antitrust laws and foreign regulations. Thus, external constraints function to limit the American manufacturers' ability to solely dictate the terms of the licensing agreement. The licensor's ultimate objective, therefore, will be to maximize its business benefits in light of these constraints.

A. United States Antitrust Legislation[17]

The antitrust provisions most often applied to restraints in technology transfer agreements are sections 1 and 2 of the Sherman Act.[18] Section 1 defines as illegal "every contract, combination in the form of trusts or otherwise, or conspiracy in restraint of trade or commerce among the several states or with foreign nations."[19] Section 2 expands upon the preceding section to declare that it is illegal to "monopolize or attempt to

[17] *See generally* J. BARANSON, INDUSTRIAL TRANSFERS OF TECHNOLOGY BY U.S. FIRMS UNDER LICENSING ARRANGEMENTS: POLICIES, PRACTICES & CONDITIONING FACTORS (National Science Foundation 1977); Kirkpatrick & Mahinka, *supra* note 8; Lipson, *supra* note 6; Payne & Stroup, *supra* note 8; Wallace, *supra* note 14.

[18] 15 U.S.C. §§ 1, 2 (1976).

[19] *Id.* § 1.

monopolize or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states or with foreign nations."[20] Section 5 (1)(1) of the Federal Trade Commission Act[21] has also been applied to restraints in licensing agreements which are deemed to be "unfair methods of competition in or affecting commerce and unfair or deceptive acts or practices in or affecting commerce."[22]

It should be kept in mind, at this juncture, that international licensing agreements, by and of themselves, are not violative of the antitrust laws. Only when the licensor places restrictions on the use of the transferred proprietary information do antitrust problems arise. Restrictive provisions, which if incorporated into a licensing agreement would most probably trigger expensive and time-consuming antitrust litigation, are as follows.[23]

1. Price Limitations—These are provisions by which the licensor sets the price of the licensed products, such as vertical price fixing.

2. Tie-Ins—A tie-in provision is one by which the licensor, exercising its superior bargaining positions, requires the licensee to take an item, such as a component part, as a condition to obtaining the item which the licensee requires.

3. Tie-Outs—These provisions are similar to tie-in restrictions except that the licensor here restricts the licensee's freedom to buy goods from a competitor.

4. Fields of Use—This is a restriction by which the licensor limits the product or industrial use to which his transferred technology can be applied.

Other restrictive clauses that raise serious antitrust problems are exclusive dealing requirements, quantity or volume restrictions, veto power clauses, post-expiration royalties, and agreements tending to restrict future licensing by a licensee.

The antitrust rules governing the applicability of the antitrust laws to questionable restrictions in licensing agreements have emerged, for the most part, from the judicial treatment of international territorial restrictions. In territorial restrictions, the licensor restricts the geographical area in which the licensee can sell the products made by the technology.

To determine the validity of trading area restraints, courts have re-

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20 *Id.* § 2.

21 15 U.S.C. § 45 (1976 & Supp. III 1979).

22 *Id.* § 45(a)(1) (1976).

23 Kirkpatrick & Mahinka, *supra* note 6, at 734.

lied on the Doctrine of Ancillary Restraints.[24] According to this doctrine, in order to be a lawful restraint, the restriction must be ancillary to fulfillment of the lawful primary purpose of the agreement, the scope and duration of the restraint must be no greater than is necessary to support the primary purpose, and the restriction must be reasonable under the circumstances.

While affirming the principle that reasonable restraints may be permissible if ancillary to the primary purpose of the licensing contract, the Department of Justice has, however, described agreements which adopt territorial restrictions as "highly suspect."[25] When territorial restraints operate in a cartel-like fashion to divide the world market between two competitors, the restrictions will most likely be considered unreasonable and illegal.

B. Foreign Constraints

In drafting the licensing agreement, the American company must consider the constraints imposed by foreign entities on licensing agreements as well as those enforced by the U.S. government. For the U.S. licensor, these restrictions will be encountered primarily in the form of restrictive regulations imposed by the host government. Supranational economic organizations, such as the European Common Market, however, have also adopted antitrust regulations which affect the conduct of licensing agreements.

The antitrust laws of the Common Market are set forth in articles 85 and 86 of the Treaty of Rome.[26] These provisions, modeled after sections 1 and 2 of the Sherman Act, forbid the "abusive exploitation of a dominant position in the European Community market and prohibit agreements that restrict or distort competition within the Common Market [and regulate] . . . restrictive agreements including operating agreements entered into in connection with joint ventures and mergers."[27] While the European Community has strictly enforced prohibitions against price-fixing, market boycotts, and the like, it has tended to encourage the transfer of technology and the conduct of international licensing agreements. Thus, while some licensing agreements may violate the strict provisions of article 85(1), such agreements will not be proscribed if they are found to benefit the public interest.[28] Just such a benefit was found to exist in the case of a restrictive licensing agreement

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[24] *Id.* at 735 n. 46, 735-37 (citing United States v. Addiston Pipe & Steel Corp., 85 F. 271, 282 (6th Cir. 1898), *aff'd as modified*, 175 U.S. 211 (1899)).

[25] *Id.* at 741-43 (citing U.S. DEP'T OF JUSTICE, ANTITRUST GUIDE FOR INTERNATIONAL OPERATIONS 28-31 (1977), *reprinted in* [1977] ANTITRUST & TRADE REG. REP. (BNA) No. 799, and 12 MERGERS AND ACQUISITIONS 15 (1977)).

[26] Treaty Establishing the European Economic Community, *done* March 25, 1957, 298 U.N.T.S. 11. *See generally* Barnes, *supra* note 12, at 7-8; Lipson, *supra* note 6, at 61.

[27] Lipson, *supra* note 6, at 61-62.

[28] Barnes, *supra* note 12, at 8.

between two French and German clock manufacturers.[29] The parties to the agreement proposed to restrict themselves to the manufacture and marketing of different time pieces within the European Community. Refusing to prohibit the agreement under article 85 of the Rome Treaty, the European Commission noted the non-dominant nature of the companies and the public benefit derived from the resulting improved technology and productivity.[30]

Thus, while the purpose of the U.S. antitrust laws is to foster open and free competition between companies in the market, thereby engendering technological innovation, the European Commission weighs the public benefit created by a particular restraint of trade provision prior to determining its validity. Moreover, individual member countries may adopt and enforce antitrust regulations which have entirely different purposes from those of the enactments just mentioned.

Indeed, many of the developing nations, through regulatory agencies, seek to control and restrict the entry of technology into the national market. Legislation, such as Mexico's 1973 Law on the Transfer of Technology,[31] which requires government approval for all technology agreements with foreign companies, is proliferating among developing nations seeking to gain valuable time and save scarce resources through prevention of duplicative technological development.

Because antitrust laws are in effect almost universally, the licensor should, upon negotiating with a prospective licensee, carefully review the regulations and laws of the host country. Generally, restrictions imposed by individual countries on licensing agreements will relate to royalty provisions, confidentiality requirements, and terminal rights. The prudent licensor may, therefore, find it desirable to have an attorney who practices in the licensee's home country review these specific clauses of the draft agreement to ensure their compatibility with local law.

VI. Conclusion

International licensing agreements are of great promise to the American business world. With careful planning and drafting, such agreements can be extremely helpful to U.S. companies. The economic and political ramifications briefly discussed in this article must be considered in addition to the legal aspects of such transactions.

Furthermore, both the lawyer drafting and the company participating in the licensing agreement must keep their eyes to the future. It is not enough to know what the law in this field is today. One must discern

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[29] Lipson, *supra* note 6, at 62 (citing In re Jaz S.A.'s Agreement, 12 J.O. COMM. EUR. 5 (No. L195) (Aug. 7, 1970), 9 COMM. MKT. L.R. 129 (1970)).

[30] *Id.*

[31] D.O., Dec. 30, 1972, described and translated in Mackinney, *New Foreign Investment Laws of Mexico*, in LEGAL ASPECTS OF INTERNATIONAL INVESTMENT 31, 32 n.4 (L.Q.C. Lamar Soc'y of Int'l L., Univ. Miss. 1977).

future trends and conduct oneself accordingly. By so doing, one's chances for a successful bout in the licensing arena are tremendously enhanced.

Question and Answer Period

Question: Your remarks suggest that the licensor should try to control product design as implemented by the licensee?

Mr. Byington: Yes.

Question: Would not such control exercised by the licensor increase the licensee's exposure to product liability and standards violations under the local law of the licensor's country?

Mr. Byington: The answer is "probably." However, I think, at least at the moment, most of the licensors are willing to take a look at that, simply because the whole basis for the licensing arrangement is such that it's critical to maintain these controls. I've never been involved in a licensing agreement nor have I seen a licensing agreement where the licensee is free to make design changes as he sees fit without going back to the licensor. So I think the answer is "yes." If product liability is going to start moving up through the licensing chain, that may be the case. We talked this morning about the whole evolving area of product liability, and God only knows where it's going. Who knows whether or not foreseeable misuse in France can go back up the licensing tree to a U.S. licensor? Who would argue that they could not possibly foresee French misuse, because nobody in America would ever do that. I really don't have any idea.

Question: Considering the trend of any technology to become known after a period of time, what would you consider a normal term for requiring a licensee to hold a trade secret in confidence? Five, ten or fifteen years?

Mr. Byington: I don't know that there is an answer in terms of "normal." I think it's based on the realities of how long a confidential term you can get in your negotiations. Obviously the longer the better. If you are in a high technology, fast-changing industry and you feel five years of absolute confidentiality is adequate in your particular area of the business, or you need ten or fifteen years—it's going to change the nature of the business you're involved in, and it's also going to be a factor in your negotiations. The rule of thumb is to start with the longest amount of time you can possibly get. In fact, some of the boilerplate licensing agreements include confidentiality for the life of the contract. You may not get that, but you start by asking. One thing you have to keep in mind in negotiating any kind of agreement, a licensing agreement in particular, is getting to know the other party. When you make an export sales agreement you've got a reasonably arm's-length transaction, and you're just selling your finished product. Also, when you're making di-

rect foreign investment and building your own plant and that type of thing, you've got very tight control. However, where you have a joint venture or a licensing agreement, you literally have a commercial marriage occur between the parties. We strongly recommend the so-called foreign approach of getting to know your licensee very well before you start signing everything. Don't try the typical U.S. method of flying in on Saturday night, recovering on Sunday, and then trying to negotiate your licensing agreement on Monday and Tuesday. Particularly in licensing, that approach is a recipe for disaster. Getting a good deal for both parties involves using common sense, practical application of the marketplace, business determinations, and hard-nosed decisions about what is in your interest. Then, try to capture this in the best possible way, and use English. Stop fooling around with the super-legalese and try to write down in the simplest way what it is that you're both intending to achieve. The answer in relation to a trade secret is, pick those things that are critical in terms of the trade secret and don't use an umbrella for everything. Pick what you've got to have and then work around the rest, instead of saying that all the doors have to be locked, all your people have to be bonded, etc. You should be much more narrow and selective. You've got a better chance of not only gaining what you want, but also ending up with a mechanism that will work for you.