

EXECUTIVE SUMMARY

INTRODUCTION

Technology has played a significant role in all round development of the country since independence. Generally, there are two ways of acquiring technology. It can be developed through own research and development or it can be purchased through indigenous or imported sources. India has opted for a judicious mix of indigenous and imported technology. Purchase of technology is commonly called 'Technology Transfer' and it is generally covered by a technology transfer agreement.

With opening up of Indian economy more and more Indian companies are entering into technical, financial and other forms of collaboration. However, not all the collaborations are successful, even if, they are covered by proper technology transfer agreements. For a variety of reasons disputes arise in implementing the collaboration agreements.

Considering the above, the Department of Scientific & Industrial Research, Government of India, has commissioned a study on "Disputes in Technology Transfer Agreements - Case Studies" This is to cover collaboration agreements between Indian & Foreign Companies.

OBJECTIVES OF THE STUDY

Objectives of the study are as follows:

- i) To analyze the causes of disputes and the manner of settlement in technology import transactions.
- ii) To bring out remedies available to the parties and the best course of action in the event of a dispute.
- iii) To suggest ways and means of avoiding such disputes.

METHODOLOGY

Desk study on the subject was followed up by distribution of questionnaires detailing various issues among different sectors of industry. After the receipt of replies to the questionnaires, personal visits were made to get first hand information on the subject.

Case studies presented before Arbitration Council of India, High Courts of Delhi, Bombay, Calcutta etc. and Supreme Court of India were also studied. In all more than 63 parties who have had foreign technical collaborations were contacted. These included both big and small companies from various sectors of economy. They had signed 375 technical collaborations in the last ten years of which 278 were still active.

CONCLUSIONS AND RECOMMENDATIONS

Dispute is a very sensitive subject involving reputation of a company, hence many respondents were not free in parting with the information. It was also found that during course of implementation of collaboration many of them had a minor or major dispute. However, most of the problems were resolved mutually through discussions at departmental or board level. In a number of cases legal process was initiated but there was out of court settlement. Only in a small number of cases the matter reached Court or Arbitration Council. However, some companies have been able to use litigation / legal notice to successfully bring the opposite side to negotiating table. One major factor for not pursuing the cases in Court or Arbitration Council was the high cost of litigation and difficulty in enforcing the award in a foreign country.

The disputes arise when at least one of the parties is unable to operate some part of the agreement for any reason. Sometimes, disputes arise because of differing interpretations of any particular clause. In rare cases one of the partners does not follow the spirit of collaboration or wants to deliberately back out of the agreement. This sometimes happens when licensor or licensee firm gets taken over by another company whose interest could be different or when business environment changes resulting in lack of interest in collaboration.

The disputes mainly related to payment of Fees / Royalty, passing on of unproven technology, delay in completion of projects, receiving obsolete technology, licensor competing with the licensee with the latest models in India, lack of after sales back up, IPR issues like use of trade mark, quality and cost of products, supply of raw materials and components, technology upgradation, incomplete data / drawings etc.

RECOMMENDATIONS

Main recommendations to avoid the disputes are as follows:

- 1) Joint venture partner should be carefully selected. There should be commonality of interest and both the partners together should be able to provide value to the customers. Transparency in dealings is necessary to achieve mutual trust.
- 2) What is required from the collaborator should be known right from the beginning and it should be stated clearly. Regular interaction is necessary for speedy resolution of problems.
- 3) Joint ventures with equity participation have greater probability of success as compared to pure technology acquisition agreements.
- 4) Royalty payment is the most common cause of disputes. Disputes arise mainly on method of calculation of royalty and on what is to be included and what is

royalty clause should explain in detail the method of calculation of royalty, if necessary by giving a few examples, so that interpretation of the clause becomes clear to both the parties and no ambiguity arises at the time of operation of agreement.

- 5) Companies should have in-house technology development cell to keep track of the latest technologies in the world. In-house R&D capability is required to absorb the technology and attract good licensors.
- 6) Technology selected should be contemporary and amenable to Indian conditions and raw materials.
- 7) Collaborator should be willing to share information and pass on improvements and modification on continuous basis.
- 8) Preferred payment terms could be low down payment and suitable royalty.
- 9) If licensee is technically and financially weak, joint venture with equity participation should be preferred. Otherwise, technology acquisition would be adequate.
- 10) The terms of agreement with the collaborator should be carefully drawn up, taking the help of competent lawyers. The agreement should cover interest of both the parties, keeping in mind the applicable laws in both the countries.
- 11) The scope of technology transfer should be clearly defined covering products, processes, proprietary materials and components, IPR issues, payment terms, marketing rights and after sales service issues, training in India and abroad, etc.
- 12) Period of agreement, residual rights and dispute settlement mechanism should be clearly stated in the agreement.

Recommendations in detail are given in the main report. They have been formulated out of personal interaction with respondents in many sectors of industry. To supplement the findings, some legal cases were also examined. These are included in the report. Also experience of NRDC in transferring indigenous technologies was studied. This is appended in Annexure 'A'. Study of legal and NRDC cases by and large support the conclusions and recommendations drawn from the case studies.

Majority of respondents in the study are from manufacturing sector. Since the service sector is going to be important in future, there is need to conduct a study to understand the issues involved in technology acquisition in this sector. The issues involved may be altogether different from the manufacturing sector. A similar study with focus on technology transfer within the country is also needed.