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TRANSFER OF TECHNOLOGY*

Document prepared by the Secretariat

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EXECUTIVE SUMMARY

1. At its thirteenth session, held from March 23 to 27, 2009, in Geneva, the Standing Committee on the Law of Patents (SCP) asked the WIPO Secretariat to establish, for the next session of the SCP, preliminary studies on two additional issues, namely, transfer of technology and opposition systems. At the fourteenth session of the SCP, held from January 25 to 29, 2010, in Geneva, the Secretariat submitted document SCP/14/4, which primarily addressed issues of technology transfer that had a link to the patent system. It contextualized various issues relating to transfer of technology in a holistic manner, and contained no conclusions.
2. At its fifteenth session, held from October 11 to 15, 2011, in Geneva, the SCP requested the Secretariat to update the preliminary study on transfer of technology (document SCP/14/4), taking into account the comments made by Member States. [The revised preliminary study \(document SCP/14/4 Rev.\) was submitted to the sixteenth session of the SCP, held from May 16 to 20, 2011, in Geneva. The discussion led to the conclusion that the Secretariat would revise document SCP/14/4/Rev. based on Member States' inputs reflecting comments of delegations at the sessions of the SCP and addressing, in greater detail, the discussion on impediments and elaborating further on incentives to technology transfer, for submission to the next session of the SCP \(see document SCP/16/8, paragraph 19\(b\)\).](#) The present document implements the above request and provides updates on issues which were raised by Member States at the fourteenth, ~~and~~ fifteenth [and sixteenth](#) sessions of the SCP.
3. Following a general introduction, Chapter II provides an overview regarding transfer of technology in general. It describes transfer of technology in the context of innovation, and in particular, different mechanisms, channels and processes relating to technology transfer are explained. It also touches upon different types of parties from and to whom technologies may be transferred.
4. Chapter III sets the scene for international transfer of technology, which is a recurring topic on the international agenda. It briefly refers to the discussions in the 1970s and 1980s, and reflects upon the current international environment.
5. Chapter IV describes some policy challenges relating to the further enhancement of transfer of technology. Difficulties in objectively measuring the quantity of the transferred knowledge, the complexity of the process of technology transfer and multifaceted factors relating to that process are some of the major challenges for policy makers. While no one policy fits all countries, the paper explores some common questions and challenges surrounding transfer of technology.
6. Chapter V looks specifically into transfer of technology and the patent system. It describes how the patent system could make positive contributions to an efficient transfer of technology if the system functions in the way for which it is intended. Various possibilities for exploiting patent rights are also described so as to indicate the role of patents in the context of transfer of technology. Although it appears that not much conclusive evidence can be found with respect to the relationship between patent protection and transfer of technology, the paper introduces some findings from economic studies that look at the effects of intellectual property rights (IPRs), in particular as regards patents, trade, foreign direct investment (FDI) and licensing. There are differences in the use of intellectual property and in other appropriation mechanisms at the company, sectoral and country levels. While no single IPR policy may provide a solution for all countries, some common questions and challenges are explored in the paper.
7. Chapter VI describes the relevant international agreements, such as the TRIPS Agreement, multilateral environment agreements, and bilateral agreements under which the role of IPRs in transfer of technology has been or may be discussed.

8. Turning to Chapter VII, it takes a more in-depth look at different aspects of the patent system, and explores how they interact with the process of technology transfer. Patents define the scope and ownership of the technology concerned and disclose that technology fully. They have direct relevance to the tacit transfer of technology and the transfer of technology through licensing agreements and the transfer of rights. At the same time, where exclusive patent rights are abused or misused, there could be a negative impact on transfer of technology. Therefore, there are a number of mechanisms that are intended to strike the right balance between the technology producers and technology users, and to prevent abuse or misuse of exclusive rights. Such mechanisms are found in both the patent system (e.g., exceptions and limitations to the rights) and outside the patent system (e.g. competition law). In addition, IP experts also play an important role in the effective transfer of technology.

9. Chapter VIII constitutes a separate chapter on public-private partnerships, since the role of intellectual property in knowledge transfer between universities and public research institutions on the one hand and the private sector on the other has attracted wider attention at the international level in the recent past.

10. Chapter IX highlights examples of technical tools and institutional frameworks that support the effective use of patent information in the context of transfer of technology.

11. ~~Finally, in~~ Chapter X describes, the importance of technology transfer in responding to a global challenge, namely development, ~~is described~~. In this context, the paper briefly illustrates recommendations under the WIPO Development Agenda and the projects under the Committee on Intellectual Property and Development (CDIP), implementing the above recommendations. It also addresses particular challenges faced by developing countries in general, although the surrounding social and economic environment may be very different among those countries.

12. Finally, in Chapter XI, potential incentives and impediments to transfer of technology, which have been described elsewhere in this document, are put together for ease of reference. Both incentives and impediments are looked at from both potential transferors'/transferees' viewpoints and from the public policy perspective in managing various interests of different stakeholders. Further, the possible situations where the patent system does not function in the intended manner and might have negative, rather than positive, contributions to the efficient transfer of technology are addressed. In this document, different kinds of incentives and impediments are considered from a theoretical viewpoint. It appears that, depending on the circumstances of each country or each case, different incentives and impediments exist and affect transfer of technology in different degrees. Therefore, to better understand the practical implications of various possible incentives and impediments, more information on practical experiences and case studies, which may go beyond the level of a preliminary study, might be useful and could be elaborated for future sessions of the SCP.

I. INTRODUCTION

13. At its thirteenth session, held from March 23 to 27, 2009, in Geneva, the Standing Committee on the Law of Patents (SCP) asked the WIPO Secretariat to establish, for the next session of the SCP, preliminary studies on two additional issues, namely, transfer of technology and opposition systems.

14. It was understood by the Committee that those issues were not to be considered prioritized over other issues contained on the list which was drawn up during the twelfth and thirteenth sessions of the SCP and is contained in the Annex to document SCP/13/7 (see paragraph 8(c) of document SCP/12/4 Rev.).

15. Accordingly, document SCP/14/4 was prepared by the Secretariat as a preliminary study on the issue of technology transfer for the fourteenth session of the SCP, held from January 25 to 29, 2010.

16. At its fifteenth session, held from October 11 to 15, 2011, in Geneva, the SCP requested the Secretariat to update the preliminary study on transfer of technology (document SCP/14/4), taking into account the comments made by Member States. [The revised preliminary study \(document SCP/14/4 Rev.\) was submitted to the sixteenth session of the SCP, held from May 16 to 20, 2011, in Geneva. The discussion led to the conclusion that the Secretariat would revise document SCP/14/4/Rev. based on Member States' inputs reflecting comments of delegations at the sessions of the SCP and addressing, in greater detail, the discussion on impediments and elaborating further on incentives to technology transfer, for submission to the next session of the SCP \(see document SCP/16/8, paragraph 19\(b\)\).](#) The present document implements the above request and provides updates to issues which were raised by Member States at the fourteenth, ~~and~~ fifteenth ~~and sixteenth~~ sessions of the SCP.

17. This document primarily addresses issues in respect of the interface between technology transfer and the Patent System. A general description of transfer of technology, including the transfer of skills, know-how and trade secrets are dealt with in the first part of this document in order to highlight the role of the patent system in transferring technologies. It should be noted that the issues relating to the stimulation and promotion of innovation are not dealt with in this document, although there is an inherent link between the promotion of innovation and transfer of technology. In the first place, innovation takes place before any transfer of technology. Furthermore, it could be considered that transfer of technology can be concluded only where the transferee has the absorptive capacity to further develop the acquired technology.

18. At the twelfth session of the SCP, it was clarified that the *modus operandi* of the Committee, namely, to move forward along a number of channels, including the preparation of preliminary studies, was agreed upon for the purpose of developing the work program of the SCP (see paragraph 123 of document SCP/12/5 Prov.). Against this specific background, this preliminary study contextualizes various issues under the patent system relating to transfer of technology in a holistic manner, and contains no conclusions.

II. TRANSFER OF TECHNOLOGY: OVERVIEW

19. The term "transfer of technology" may be understood in a narrow or broad sense when used in the context of intellectual property, in particular, patents. Broadly stated, transfer of technology is a series of processes for sharing ideas, knowledge, technology and skills with another individual or institution (e.g., a company, a university or a governmental body) and of acquisition by the other of such ideas, knowledge, technologies and skills. In the context of transferring technologies from the public sector and universities to the private sector, the term "transfer of technology" is

sometimes used in a narrower sense: as a synonym of “technology commercialization” whereby basic scientific research outcomes from universities and public research institutions are applied to practical, commercial products for the market by private companies.¹

20. Technology transfer increases the stock of knowledge of the transferee, which forms the basis for further development and exploitation of technology into new products, processes or applications. For the transferee, the absorption of a new technology is one of the vital factors which improve competitiveness in the market. In reality, technical superiority may not necessarily ensure market success and extraordinary profits (it is just one of the factors that determine ultimate market success). A marketing network, branding strategies, business and commercial know-how, such as information regarding consumers’ preferences, market trends and customers’ details, are all relevant to commercial success. Nevertheless, the importance of technology in adding value to goods and services in the market economy cannot be denied. It contributes to adding value in a commercial chain, enhances competitiveness in the market and fosters a better quality of life. Consequently, in general, technology transfer promotes the dissemination and further creation of knowledge and technology in society at large. The technology recipient may be able to obtain existing public domain technology from the bigger pool of knowledge and adapt such technology to his or her own needs. Where a technology is transferred through a voluntary agreement between the technology holder and the technology recipient, it also enhances cooperation and collaboration between two parties.

21. Transfer of technology also brings benefits to transferors of technology. In addition to direct income from royalty and licensing payments, investing in foreign countries and setting up research facilities in other countries represents one way of accessing local technological know-how and capacity.² This may be even truer in times when open innovation and “localized” commercialization are considered important for competitiveness.

22. Indirectly, at the macro level, transfer of technology enriches the technological basis of a given society or country, widely believed to act as a catalyst for national economic growth. It may contribute to building technical expertise and know-how in the country concerned, encouraging the creation of local industries and increasing competitiveness in global trade. Thus, given the centrality of technology to technological, social and economic development of countries, the generation, transfer and diffusion of such technology has been widely recognised as a major element to be taken into account in designing development policies at both national and international levels. Chapter X of this document focuses specifically on technology transfer issues in the context of development by illustrating, *inter alia*, those WIPO Development Agenda recommendations that relate to transfer of technology.

23. With a view to a shift towards a knowledge-based economy, the assimilation of knowledge and the creation of new technology have become essential elements for companies to survive and grow in a market environment where competition has been increasing domestically as well as internationally. Consequently, many countries have been investing in knowledge creation as a priority under national economic, technological and development policy and strategy.³ Simply

¹ Issues relating to the definition of the term “transfer of technology” are, in addition, addressed in paragraph 81 and footnote 43.

² [N. Mohan Reddy and Liming Zhao “International technology transfer: a review”, Research Policy 19, 1990, p.285-307.](#)

³ [A number of countries set out policy directions and measures to encourage and facilitate the effective creation, development and management of knowledge as goals for national development and competitiveness. Examples of such national policies and strategies are found on the WIPO website at: \[http://www.wipo.int/ip-development/en/strategies/national_ip_strategies.html\]\(http://www.wipo.int/ip-development/en/strategies/national_ip_strategies.html\).](#)

stated, in order to acquire a new technology, there are two main ways to do so: either to create such technology or to acquire it from others. Creating the technology may have the advantage of having the possibility to better control, in terms of the duration, geographical coverage and scope, the developed technology through intellectual property protection, including trade secrets. It also avoids being dependent on technologies which have been created and are owned by others. On the other hand, investment in research and development can be expensive. There is no guarantee that such investment would bring any fruitful results. In addition, if a company has no expertise in the field of technology under research, it may take a long time to develop such expertise. Sometimes, that is not a viable option because competitors' technical capability and the market may develop much faster than the speed of one's own research.

24. Another path, that is, to acquire technology from others, is indeed an option if the required technology is available and accessible in a less risky, more efficient and more economic manner. While the importance of self-developed technology for maintaining a competitive edge cannot be denied, the importance of transfer of technology in the innovation system has been widely recognized, partly because of changes in technological and economic environments. Firstly, technology becomes more complex and often develops in a cross-cutting way which goes beyond the traditional fields of technology. The complexity of technology used in a product requires a company to cooperate with others which have expertise in other technical fields. Secondly, the ongoing integration of domestic and international markets through continuing liberalization and de-regulation of markets enhances competition at the national and international levels. In certain fields of technology, competition within the sector is so strong that new products with new functions and designs appear in the market regularly in a short cycle. To keep up with the speed of technological development and global competition, acquiring new technology from others may allow companies to go beyond their own R&D to find the best technologies, and integrate them into the company's own settings. Consequently, while many companies have been integrating both mechanisms into their innovation processes, namely, in-house innovation and technology acquisition from others, the latter is used more and more strategically taking into account the company's overall business strategy. Open and collaborative innovation mechanisms have been explored by many private companies. The strategic cooperation between the transferor and the transferee of the technology may bring mutual benefits to both parties by utilizing the expertise of the other.

25. The process of technology transfer is fundamentally the flow of human knowledge from one human being to another, whether the transferor or the transferee is an individual, an enterprise, small or large, a university, a research institution or any other party.⁴ Such a flow of knowledge may occur through various channels as described below. They are neither exhaustive nor mutually exclusive, since various channels may be exploited simultaneously.

26. Through the public domain: Anyone can use and build upon ideas and innovations over which no person has any property rights. In relation to a patent granted in one country, after the expiration or abandonment of the patent in a given country, or in any other country in which a patent has not been granted or has no legal effect, third parties are not required to obtain the consent of the patent holder for the exploitation of the patented invention. However, it should be noted that if the exploitation of the patented invention infringes another valid patent that claims a broader scope of technology covering the said invention, the consent by the owner of such broader patent is required in order to exploit the off-patent invention. [Therefore, the simple fact that a patent was invalidated does not mean that anyone can use that off-patent invention without](#)

⁴ John Barton, "New Trends in Technology Transfer – Implication of National and International Policy", ICTSD Issue Paper No. 18, 1.4.

infringing another patentee's right. Depending on the complexity of the patent landscape of the particular technology, it may require a certain expertise to identify the public domain space.

27. Public domain technologies may be transferred through technical publications and literatures or through products that exhibit their embedded technologies. For example, technology may be transferred by studying and examining technologies used in the acquired product (so-called reverse engineering). Such a form of transfer, however, requires an absorptive capacity on the part of the transferee to explore, understand and imitate the embedded technologies. There is usually a learning curve that increases the absorptive capacity by means of repeated "trials and errors".

28. What are the relationship and interplay between the patent system and the public domain and how that interaction relates to technology transfer are interesting questions. One of the authors of the Study on Patents and the Public Domain,⁵ conducted in conjunction with a project for implementation of the WIPO Development Agenda recommendations (Project DA_16_20_01) stated that:

"[...] while [Development Agenda] Recommendations 16 and 20 alone mention "public domain" in specific terms, a vital and accessible public domain will at least assist in the fulfillment of many of the other Recommendations too, particularly those which refer to issues such as technology transfer and dissemination and scientific cooperation. This Study may therefore be seen as having a wider scope of applicability than its title suggests."

As the author suggests, the patent public domain has two dimensions: the information domain which comprises patent information made available to the public and the action domain which comprises what can be done with the information. The distinction of the two domains may be important in the context of the transfer of technology debate.

29. While the patent system may trigger a public disclosure of inventions and release those inventions into the public domain once the patent is expired, revoked or abandoned (provided that no other rights cover the inventions), there is the fear that an inappropriately low level of patentability requirements and patent thickets may encroach upon the free availability of public domain technology.⁶ Further, one scholar states that certain early and broad research results, which previously would have been in the public domain, are owned privately due to the proliferation of intellectual property rights on the upstream research outcome.⁷

30. Through tangible and intangible property: Transfer and acquisition of technology can take place with the transfer of ownership of properties, such as a purchase of production lines, an acquisition of a factory or a merger and acquisition (M&A) of a whole company. In many instances, those tangible assets inherently involve both implicit and explicit technological knowledge. In the case of M&A, transfer of intangible property, such as patents, would normally occur together with the transfer of tangible property. This would allow the new patent owner to obtain exclusive rights to prevent others from using, making etc. the patented invention without the new owner's consent. The mere acquisition of a patent *per se*, however, may not play much of a role in transferring new

⁵ Study on Patents and the Public domain, Part I by Jeremy Phillips (document CDIP/4/3 Rev./STUDY/INF/2).

⁶ Graeme Dinwoodie and Rochelle Dreyfuss "Patenting science: protecting the domain of accessible knowledge" in L. Guibault & P.B. Hugenholtz (ed), *The future of the Public domain in Intellectual Property*, 2006; See also paragraph 139 regarding patent thickets.

⁷ Michael Heller and Rebecca Eisenberg "Can patents deter innovation? anticommons in biomedical research", *Science* 280, p.698-701, 1998.

technological knowledge to the new patent owner, since the technological information relating to that patent has already been published by the patent office concerned. On the other hand, actual “use” of the patented technology by the new owner may lead to him or her understanding the relevant technology better and gaining technical know-how related to such technology.⁸

31. Through technology licensing: Technology licenses mainly involve patents, trade secrets and know-how. Simply stated, in the intellectual property context, a license constitutes permission by the IP owner (e.g. of a patent) to another party to conduct one or more activities covered by the exclusive rights under the agreed terms and conditions, such as the amount of royalty payment, the duration of the license, geographical coverage, the scope of use, etc. A patent license *per se* only constitutes permission to use the patented technology in a specific way. However, as previously stated, the actual use of the patented technology by the licensee may facilitate better understanding of the relevant technology and increase the capacity of the licensee to absorb new technology.

32. In general, a licensor is interested in the commercial gain from a royalty payment from a licensee. Therefore, it is in the interest of the licensor to make sure that the licensee can properly exploit the technology and obtain economic benefits. In other words, it is in the interest of the patent licensor that the licensee acquires all knowledge, including tacit knowledge that may not be obvious from the patent document, to utilize successfully the patented technology on a commercial scale and in a profitable manner. Therefore, trade secrets and know-how contracts often go hand-in-hand with a patent license.

33. Technology licenses play a crucial role in joint venture agreements and collaborative research agreements, which are also important ways to transfer technology in a win-win environment. In an increasingly complex world, innovation and rapid market responsiveness are regarded as keys to global competitiveness. These factors have contributed to the development of various initiatives to address research in a more collective way at different levels, with the objective of establishing excellence in research projects and networks that would attract researchers and investments. Joint ventures and collaborative research support the exchange of knowledge, know-how and expertise of researchers participating in the collaboration, and stimulate the creation of new ideas through such exchange of knowledge.

34. Voluntary licensing agreements necessarily involve negotiations between a potential licensor (technology holder) and a potential licensee (technology user). Generally speaking, there exists information asymmetry between the potential licensor who already knows the relevant background, including the terms of previous licenses, and the potential licensee who may obtain that knowledge only after the transaction.⁹ Further, where negotiations take place between a resource-rich company and a resource-poor company or between a company with deep experience in negotiating licensing contracts and a company with less experience, it can be expected that the bargaining position of the former is stronger than the latter. In the context of international transfer of technology, if a prospective licensee is from a less developed country having less resources and experience in licensing, he may not have bargaining power equal to that of a prospective licensor with more resources and licensing experience.

⁸ In countries where a broad research exception to patent rights exists, those advantages through the acquisition of a patent may be less relevant. However, there could be certain know-how that can be gained only through the use of the technology at the commercial level, which is not possible under the research exception.

⁹ See also paragraph 86 with respect to information asymmetry between a licensor and a licensee.

35. Through technology services: One way of obtaining technology and expertise which does not exist in-house is to purchase such technology or expertise from experts via contracts. An individual expert or a consultant firm may render services that support the planning and acquisition of technology. Similarly, a research service agreement may be concluded with a specialized research-based firm from which a company may purchase research results. If both parties agree, it is possible to conclude an agreement that allows a technology purchaser to acquire the ownership of the [patent rights related to the](#) contracted technology.

36. Through unilateral investment: There are some transfers of technology where a unilateral investment is made by a technology holder. For example, foreign direct investment (FDI), such as a company establishing an R&D laboratory in another country, may have an effect of technology spillover to researchers and engineers in the other country. For a firm considering investing in another country, FDI has the advantage of keeping the technology within the affiliated firm. However, permanent or temporary migration of researchers and engineers (technology holders) to the other country and spillover effects to the domestic firms should not be underestimated in terms of a possible knowledge transfer through a tacit channel (see below). In the national context, the establishment of an R&D center in one locality may have a spillover effect for researchers and engineers in that region (e.g., researchers from a technical university in that region).

[37. One scholar, however, notes that general investment policy measures attracting FDI did not automatically generate spillovers to local firms and other actors in the home country's national innovation system.¹⁰ Targeted policy measures and strategy promoting knowledge linkages between local firms and transnational corporations \(TNCs\), together with tax incentives on FDI in R&D, were considered essential to the generation of more spillovers.](#)

38. Through tacit channels: Knowledge and know-how may be transferred through observing what others do (such as apprentices learning techniques by observing a master). In the context of international technology transfer, one research paper suggests that learning by doing and subsequent labor turnover is an important channel of international technology transfer.¹¹ It considers that the international movement of people has a potentially much larger role to play in fostering international technology transfer.¹²

39. Whichever form of knowledge transfer is exploited, knowledge transfer requires an absorptive capacity on the part of the transferee to understand and adapt the technology for his or her own purpose, often in the specific setting of the transferee. Therefore, in the context of successful technology transfer, a number of reports stress the crucial importance of the development of the transferee's capacity through education and R&D and the development of appropriate institutions.¹³

¹⁰ [Patarapong Intarkumnerd, "FDI strategies, technological upgrading and spillovers: lessons of Thailand for other developing countries, Journal of Science Policy and Research Management, vol. 22\(2\), 2007, p.103-116.](#)

¹¹ Bernard Hoekman, Keith Maskus, Kamal Saggi "Transfer of technology to developing countries: unilateral and multilateral policy options", World Bank Policy Research Working Paper 3332, June 2004.

¹² To avoid brain-drain, the authors suggest encouraging the temporary movement of people across borders, with an appropriate environment for the returnees to be able to apply their skills, which in turn depends on the investment climate.

¹³ Commission on Intellectual Property Rights "Integrating Intellectual Property Rights and Development Policy". Evidence suggests that the ability of domestic firms to absorb foreign technology depends on the existence of the in-house R&D capacity (Rod Falvey and Neil Foster, "The role of intellectual property rights in technology transfer and economic growth: theory and evidence", UNIDO Working Papers, 2006).

40. Strategies, mechanisms and forms of technology transfer may be different depending on the type of technology to be transferred. For example:

- whether the technology is a proprietary technology (e.g., under patent or trade secret protection) or a non-proprietary technology (e.g., in the public domain, or off-patented technology);
- whether the technology is a mature technology that can be relatively easy to absorb or a cutting-edge technology that involves extensive know-how and tacit skills;
- whether the technology to be transferred is an existing technology or a technology to be developed in the future through, e.g., collaborative research;
- whether a cost-effective alternative technology is available.

41. The transfer of technology may occur between different types of parties. It may be transferred between parties in the public sector, between a party in the public sector and a party in the private sector, and between parties in the private sector. At the outset, whether a party comes from the private sector or the public sector, the transfer of technology occurs where the “needs” of the transferor and the transferee meet. In the private sector, such “needs” might be generated through a market mechanism and competition in the market. Competition in the market, however, may not be an appropriate stimulus for technology holders in the public sector to trade their technical expertise. Many public sector research institutes and universities engage in basic research but not in the commercialization of such basic research results. In the recent past, efforts have been made to explore the potential of transferring basic research results developed by the public sector to the private sector which would apply them to practical commercial products.

III. INTERNATIONAL TECHNOLOGY TRANSFER

42. The transfer of technology may occur within national borders or internationally. Since, in general, a bigger pool of technology is available internationally than nationally, international procurement of technology is a natural solution to obtain new technology and to foster new innovation based on the acquired technology, particularly with a view to increasing competition at the global level. One of the difficulties in analyzing international trade in technology is the limited availability of quantitative information. The most widely used indicator of technology trade is international receipts and payments of royalties and licensing fees (RLF), despite the well-known problems associated with such an indicator (for example, difficulty of isolating intra-firm payments and separating contributions of patent licensing from other types of licensing).

~~43. Due to a disparity in technological capacity among countries, at the macro level, technological knowledge generally flows from a higher technological capacity country to a lower technology capacity country, i.e., in a simplistic manner, from a party in a developed country to a party in a developing country. Such a description, however, may be too simplistic and static. The growth of cross-border licensing trade in the world economy has increased since the 1990s. International RLF receipts for IP increased from USD 2.8 billion in 1970 to USD 27 billion in 1990, and to approximately USD 180 billion in 2009.¹⁴ Although the number of countries participating in~~

¹⁴ WIPO. (forthcoming). World Intellectual Property Report - The Changing Face of Innovation. Geneva: World Intellectual Property Organization.

international RLF transactions has increased,¹⁵ the global flow of RLF payments largely occurs among the industrially more advanced countries of North America, Europe and East Asia.¹⁶ Comparing high-, middle- and low-income countries, in 2009, high-income countries accounted for around 98% of the global RLF receipts, which was unchanged from ten years earlier.¹⁷ With respect to RLF payments, however, the share of high-income countries decreased from 91% in 1999 to 83% in 2009, while the share of middle income countries increased from 9% in 1999 to 17% in 2009.¹⁸

44. Hoekman et. al. gathered data on the flow of technology trade among high income OECD countries and between high income OECD countries and (i) upper-middle income countries; (ii) lower-middle income countries; (iii) low income countries; and (iv) sub-Saharan states, respectively, and compared the data between 1971 and 2001.¹⁹ They found that upper-middle income countries constituted the fastest-growing market for technology-intensive exports from OECD countries and, at the same time, they had become suppliers of technology intensive products together with lower-middle income countries. While middle income countries collected royalty income of \$12.7 billion from OECD countries in 2001, the amount collected by low income countries was \$2 billion. Another researcher reported some specific cases where a technology holder in a developing country transferred his technology to a party in a developed country.²⁰

45. It is generally agreed that access to technologies required for development is crucial to developing countries.²¹ A number of international agreements contain provisions that express commitments by developed countries to incentivize companies and institutions in their territories to transfer technologies to developing countries. International technology transfer has been a recurring topic on the international agenda. In particular, from the 1970s to the 1980s, the issues relating to the transfer of technology were debated through negotiations concerning a Draft Code of Conduct at the United Nations Conference on Trade and Development (UNCTAD) and a revision of the Paris Convention at WIPO, both of which were unsuccessful. While many would agree that the transfer of technology is a cornerstone for the stimulation of innovation and development, less agreement is found with respect to how that can be achieved. Some scholars

¹⁵ In 1990, 62 countries made RLF payments. By 2007, this number had increased to 147 countries. Similarly, in 1990, 43 countries received RLF payments, while by 2007, this number had increased to 143 countries. (WIPO (forthcoming). World Intellectual Property Report - The Changing Face of Innovation. Geneva: World Intellectual Property Organization.)

¹⁶ The United States of America, which is the biggest international RLF recipient country, receives 76% of its total RLF income from the top five partners (European Union, Switzerland, Japan, Canada and the Republic of Korea). The shares of top five partners in other major RLF recipient countries are 81% in the European Union and 76% in Japan. [Table III.32: Receipts of royalties and licensing fees of selected economies by origin, 2008, International Trade Statistics 2010, World Trade Organization]

¹⁷ WIPO (forthcoming). World Intellectual Property Report - The Changing Face of Innovation. Geneva: World Intellectual Property Organization.

¹⁸ Ibid.

¹⁹ Bernard Hoekman, Keith Maskus, Kamal Saggi "Transfer of technology to developing countries: unilateral and multilateral policy options", World Bank Policy Research Working Paper 3332, June 2004.

²⁰ Some examples are found in Manthan Janodia, D Sreedhar, Virendra Ligade, Ajay Pise, Udupa N., "Facets of technology transfer: a perspective of pharmaceutical industry", Journal of Intellectual Property Rights, Vol. 13, January 2008, p.28-34.

²¹ For example, Commission on Intellectual Property Rights (CIPR), "Integrating Intellectual Property Rights and Development Policy"; WIPO Development Agenda contains a number of recommendations promoting transfer and dissemination of technology to developing countries.

note that the transfer of technology landscape has greatly changed,²² and that understanding the process of technology transfer has undergone significant changes during the past three decades.²³

46. In the 1970s and 1980s, the debate on technology transfer mainly focused on the mechanisms of, and conditions for, technology transactions and on the imperfections of technology transfer processes. Consequently, questions were raised on how to remove obstacles and reduce costs resulting from using market power.

47. In the meantime, globalization and the movement towards free trade have progressed at an unprecedented speed. In many industries, production chains are spread over more than one country.²⁴ In the international regulatory framework favoring such globalization and free trade, companies in any country have been facing stronger international competition in addition to local and national competition.

48. As the above OECD study referred to in paragraph ~~35-44~~ suggests, some developing countries have acquired a good scientific and technology base, and have become producers of technology. In the analysis of countries that have successfully developed their technological capacity during recent decades, greater attention has been paid to the processes of technological adaptation in the transferred country and domestic technological expertise than to the static mechanism of technology transfer.⁴⁹²⁵ At the policy level, in the past, emphasis was placed on defensive measures to remedy defects in the international market. However, more recently, market imperfections have been addressed by improving competitiveness and the contestability of the markets rather than by directly intervening in the conditions for technology transactions.⁴⁹²⁶ There is a general understanding that the determining factors of international technology transfer are complex, and that the dynamic interactions of various national factors, innovation system, market, human resources, etc. need to be taken into account as a whole.

49. Furthermore, there appears to be growing consciousness of the information asymmetry among various stakeholders involved in the process of technology transfer. A technology holder may not be able to determine easily whether any third party is interested in using his or her technology. A potential technology recipient may not be able to find out easily about available existing technologies. For a potential technology recipient, it is difficult to analyze correctly the “value” of the technology before the technology is actually transferred. With the right tool to bridge the needs of potential technology transferor and transferee, globalization could in fact be an opportunity, rather than an impediment for such a transfer to take place.

²² John Barton, New trends in technology transfer, Issue Paper No. 18, ICTSD Intellectual Property and Sustainable Development Series.

²³ Pedro Roffe, “Comment: Technology transfer on the international agenda” in *Keith Maskus and Jerome Reichman (ed.), International Public Goods and Transfer of Technology Under a Globalized Intellectual Property Regime*.

²⁴ [Not only production activities but also R&D activities seem to cross national borders. For example, according to the UNCTAD World Investment Report 2005: Transnational Corporations and Internationalization of R&D, among the R&D conducted by transnational corporations from the United States of America, the developing country share of R&D in all foreign countries R&D increased from 7.5% to 13% between 1994 and 2002.](#)

²⁵ [Ibid. footnote 23.](#)

²⁶ [Ibid. footnote 23.](#)

IV. POLICY CHALLENGES

50. With a view to promoting innovation and technological development, policy makers in all countries have been constantly seeking how to encourage sharing of technological knowledge with others and how to acquire such knowledge from others.

51. One of the difficulties for policy makers in identifying an optimal policy for the transfer of technology in an objective manner is that it is hard to quantify the flow of technology transfer, either within the territory or beyond it.²⁷ This is because many forms of technology transfer, e.g., spill-over of knowledge or knowledge acquisition through imitation, are simply not measurable. While it is possible to measure the amount of foreign direct investment, there is no guarantee that the quantity of foreign direct investment is in proportion to the amount of knowledge acquired by the recipient country. Similarly, although a patent could be considered a concrete output of the technological innovation, a simple count of granted patents could be seriously misleading if the scope of the claims, different national patent laws and actual exploitation of such patents in the territory are not taken into account.

52. Another significant challenge relating to the transfer of technology is that technology is not like any other commodity that can be bought and sold in the market without consideration of the need for capacity building on the recipient side and the tacit elements required for effective transactions.⁴⁰²⁸ Technology is neither mere blueprints and formulas nor new and advanced equipment which is easy to move from place to place. Mere blueprints and even machinery have proven inadequate to replicate the miracle of sustained economic growth, driven by advances in knowledge and its application to economic ends.²⁹ The process of transferring technology, which may involve the commercial transaction of blueprints and machines, transfer of both codified and non-codified knowledge, and adaptation and application of acquired knowledge for the purpose of innovation, is a complex one.

53. Many scholars point out the importance of the absorptive capacity of the recipient of the technology, that is, the ability of the recipient to evaluate and use the technology effectively. As an example, even if the technology is within the public domain which can be “accessed” by any party, the capacity to acknowledge, analyze and apply public domain technology is necessary in order to solve concrete problems encountered by the recipient party. The absorptive capacity may include the ability of the recipient party to conduct an effective negotiation with a technology holder, based on the clear understanding of the technology concerned and of legal terms and practical negotiation skills. This suggests that it is not only higher education in the scientific and technology fields that is important to the recipient country, but also skilled lawyers and intellectual property experts, who can play a significant role in the successful transfer of technology.

54. While some technologies are owned by the public sector, many technologies are owned by the private sector. Consequently, it appears that an efficient and sustainable technology transfer policy requires understanding business behaviors. In this context, one of the challenges is to find a synergy between political considerations and business behaviors. Since, in many cases, the

²⁷ [A Seminar on Patents and Transfer of Technology, to be organized by the WIPO Chief Economist on December 5, 2011, in Geneva, will address the types of data needed to evaluate the performance of the patent system as regards transfer of technology with a view to assist the quantitative evaluation of transfer of technology.](#)

²⁸ [Ibid. footnote 23.](#)

²⁹ Ashish Arora, “Intellectual Property rights and the international transfer of technology: setting out an agenda for empirical research in developing countries” in the Economics of Intellectual Property, WIPO Publication No. 1012.

transfer of technology depends on a conscious decision taken by a private technology holder, a wide variety of factors are relevant to such a decision-making process. They include, for instance, the size of the market, anticipated growth of the relevant market, geographical location of the market (such as proximity to a large market), competition in the market, available labor skills and costs, physical and telecommunication infrastructure, availability of financial services, political and economic stability and transparent governance structure.³⁰

55. The complexity of the process of technology transfer and multifaceted factors that are related to such a process indicate that there is no one single technology transfer policy that is valid in all countries. It appears that there is no single answer to complex questions such as how to facilitate voluntary agreements between a technology transferor and a technology transferee, how to promote and strengthen the value adding chain from research to commercialization, and how to tap into a greater pool of available technology for development. Even if optimal answers for each country may vary, these common questions are of widespread concern.

56. The first question relates to bridging the needs of technology holders and technology recipients. It basically addresses the asymmetry of information held by various stakeholders involved in the process of technology transfer. Hence the question on narrowing the information gap between the parties and facilitating the flow of information among them.³¹

57. The second question relates to organizational measures that facilitate agreement among stakeholders involved in the transfer of technology. Reducing the costs of transferring and acquiring technology is a major challenge. Issues such as promoting licensing, facilitating investments and funding, improving the attractiveness of the market and facilitating the participation of publicly funded research institutions, universities, small and medium-sized enterprises (SMEs) and traditional knowledge holders³² in knowledge transactions are all relevant to the effective transfer of technology.

58. Another issue that raises a number of questions is the absorption and adaptation of new knowledge and the application of such knowledge to further innovation after the knowledge has been accessed by a recipient. This question touches upon basic preconditions such as education, professional training and capacity building, and incentives for further innovation.

V. THE ROLE OF THE PATENT SYSTEM

A. GENERAL DESCRIPTION

59. One of the characteristics of “knowledge”, including technological knowledge, is that it is a public good that is “non-excludable” (people cannot be excluded from freely using a public good) and “non-rival” (it can be used simultaneously by many people). The nature of knowledge as a public good means that, once an invention has been created, it can be freely used by others at no

³⁰ Keith Maskus, Kamal Saggi, Thitima Puttitanun “Patent rights and international technology transfer through direct investment and licensing” in *Keith Maskus and Jerome Reichman (ed.), International Public Goods and Transfer of Technology Under a Globalized Intellectual Property Regime*.

³¹ At the High-Level Forum on Intellectual Property for the Least Developed Countries, held on July 23 and 24, 2009, at WIPO, Minister Ahmadou Abdoulaye Diallo from Mali stated that although much talent could be found at invention and technology fairs, once the awards had been handed out, inventors were in the dark on how to implement the inventions (from “Intellectual Property Watch”, dated July 27, 2009).

³² For example, the “Farmer to Pharma” initiative in South Africa integrates traditional medical knowledge holders into modern pharmaceutical R&D.

additional cost. This results in situations where an inventor, who must invest to create a new invention, cannot capture the full benefits of the invention through its exploitation (e.g., selling in the market). Free riders can copy or imitate the invention and sell the copied products much more cheaply than the original inventor, because they do not bear the cost of R&D. This would reduce the expected returns of the original inventor, and would result, in theory, in an under-provision of new inventions.

60. The patent system is intended to correct such under-provision of innovation by providing innovators with limited exclusive rights to prevent others from exploiting their invention and thereby enabling the innovators to appropriate the returns on their investment. At the same time, the patent system requires innovators to disclose fully their inventions to the public. These fundamental elements of the patent system play an important role in the dissemination of knowledge and the transfer of technology.

61. By granting limited exclusive rights, the patent system, in effect, creates property rights in the knowledge embedded in patented inventions. The patent system has transformed public goods knowledge into a tradable property with defined ownership and boundary of rights. The exclusive right conferred by a patent can be used by a patentee to prevent others from using the patented invention. However, the same exclusive right can be used as a currency to promote an exchange of knowledge and collaboration by researchers through licensing agreements and assignment of rights. The patent system aims to improve the efficiency of the flow of knowledge and to facilitate the transfer of technology by setting up a legal framework that allows technology holders to disclose their inventions, license their patents or sell their patents without fear of free-riding. The possibility of defining ownership and a clear boundary of rights also facilitates packaging and trading technology under a "patent".

62. Another element of the patent system, the public disclosure of inventions, also plays an important role in the effective transfer of technology. Published patent applications and patents are an enormous source of technological knowledge. In addition to the detailed description of inventions, such publication also contains claims which define the scope of patent protection and bibliographical data relating to inventors, patent applicants and patentees. Therefore, patent information not only makes detailed technological knowledge available to others but also informs the public of the owner, extent and scope of patent (property) rights. At the same time, patent information indicates the extent to which third parties may exploit the technical knowledge contained in the patent document without infringing the patent. After the expiration or abandonment of the patent in a given country, or in any other country in which a patent with respect to the same invention has not been granted or has no legal effect, third parties are not required to obtain the consent of the patent holder for the exploitation of the patented invention. In short, patent information provides an important infrastructure that facilitates knowledge sharing.

63. Without doubt, a patent system could make the above positive contributions to the efficient transfer of technology only where the system functions in a way for which it is intended. Albeit a negative right (a patent does not grant a patent owner the right to exploit the patented invention, it only entitles the patent owner to prevent others from exploiting the patented invention without his or her consent), a patent may confer a strong exclusive right on a patentee. Therefore, the scope of enforceable exclusive rights under national patent laws is carefully defined, taking into account the interests of other parties. To that end, various mechanisms are built into the patent system to prevent abuse and misuse of such exclusive rights.

64. In other words, patent laws provide requirements such as the conditions of patentability (patentable subject matter, novelty, inventive-step (non-obviousness), industrial applicability (utility)), sufficient disclosure of the claimed invention in the description and clarity of claims. If those requirements are not properly stipulated in the patent law, or the patent law stipulating those requirements is not properly applied, the grant of the exclusive patent rights may not serve the

[public interest as intended through the patent system, and may increase the transaction cost for transfer of technology. Similarly, a proper and unambiguous scope of exceptions and limitations to the exclusive patent rights as well as enforcement and recourse measures accessible for all stakeholders may be elements in the patent system that facilitate knowledge sharing. Chapter VII of this document describes in more detail certain elements in the patent system that could have implications for the transfer of technology.](#)

65. The simple existence of a patent for a particular technology is not a barrier in itself to the transfer of technology nor does it guarantee that the technology will be fully exploited by the patentee in all possibly beneficial ways. Much depends on how the exclusive patent rights are designed under the respective national law, how they are deployed and used as a vehicle for technology transfer to the benefit of both a transferor and a transferee. Conversely, the absence of an enforceable patent right does not in itself provide any guarantee of technology transfer. The prospect of using the technology disclosed in the published patent applications and patents is open. However, the transfer of valuable know-how and other background technology that may be useful for the effective commercial exploitation of the technology may only be achieved with the partnership or involvement of the technology originator. As described earlier, the capacity to absorb and apply the technology on the recipient's part is fundamental to the successful completion of the transfer of technology.

66. The term "patent" is often conceived as a synonym of "monopoly" in the market. However, the right conferred by a patent is defined in a manner that allows a patentee to exploit his or her patent in a manner other than preventing third parties from using the patented invention. While a patent can be used to exclude others in the market, it can also be exploited in a way that allows other parties to use the patented invention. Patents are more and more seen as one of the strategic business tools to achieve the firm's business goal. The motives for obtaining a patent may be for a cross-licensing deal, or a patent may be licensed-out for royalty income. What is common in all business models that support access to patented technologies is that there is a transfer of knowledge from one party who wants to leverage the technology to another party wishing to procure external technology.

67. To meet the challenges such as intensified global competition, shorter life-cycle of products and more complexity in technology, in addition to the traditional vertical integration of the value chain, open innovation models have been widely introduced in the business sector. R&D collaboration among different parties can be carried out under different types of agreements, such as joint development agreements, public-private partnership agreements, or joint ventures. In all cases, intellectual property which relates to inputs to the R&D collaboration (background IP) and of intellectual property which will be generated as outputs from the R&D collaboration (foreground IP) constitute important elements in such collaboration. In the context of R&D collaboration, a patent system provides a legal mechanism that supports the collaborating parties to define clearly the boundary and ownership of the technologies contributed by the collaborating parties and to agree on the extent to which those parties and others are authorized to use such technologies.

68. Whether or not the patent system inhibits, rather than promotes, transfer of and access to technology is a recurring question. Most recently, in the context of the climate change debate, it has been argued that patents on carbon abatement technology, mainly owned by patentees in developed countries, constitute a major barrier to developing countries' efforts to reduce greenhouse gases. [One scholar concludes that a minimum standard of patent protection and stringent conditions for issuing compulsory licenses may impede climate change technology transfer in developing countries, since it increases the cost of technological acquisition while](#)

having no positive bearing on increased foreign direct investment or technology trade.³³ During the negotiations related to the United Nations Framework Convention on Climate Change (UNFCCC), several developing countries identified intellectual property rights as a barrier to technology transfer, which requires further considerations in areas such as: (i) regulating the patent regimes to balance rewarding technology innovation with access to a common public good; (ii) removing barriers to accessing technologies in the public domain; (iii) and increasing access to clean technologies by providing compulsory licenses for these technologies.³⁴ One organization asserts that some developing countries were under political pressure in implementing flexibilities under the TRIPS Agreement and that some firms in developing countries faced great difficulties in obtaining voluntary licenses on climate change technologies.³⁵ On the other hand, ~~One~~ one study that examined valid patents on seven emission-reducing energy technologies concluded that patent rights cannot possibly be an obstacle for the transfer of climate change technologies to the vast majority of developing countries, as there are hardly any patents on these technologies registered in these countries, and that relaxing patent protection in these countries would not improve technology transfer to them.³⁶ An UNCTAD report³⁷ revealed that a broad range of environmentally sound technologies was available to meet the needs of developing countries.³⁸ It states that while public-funded R&D in the development of such technologies was significant, only a small proportion of public-funded technologies are patented, commercialized or transferred, due to, among other reasons, the costly and lengthy process of obtaining patent rights, lack of knowledge about the business aspects of technology development, the absence of an incentive structure conducive to the commercialization of research results, and the fact that many R&D activities are still too upstream in many countries.³⁹

69. Another study concludes that intellectual property rights are potentially both an incentive and an obstacle to the transfer of technology, although the exact role of intellectual property rights in the transfer of climate-related technologies remains unclear, due to the lack of comprehensive studies and empirical evidence.⁴⁰ One scholar suggests that a one-dimensional discussion as to whether intellectual property hinders or promotes the transfer of environmentally sound

³³ Cameron Hutchison "Does TRIPS facilitate or impede climate change technology transfer into developing countries?", University of Ottawa Law & Technology Journal, vol. 3, 2006, p.517-537.

³⁴ Address by Yvo de Boer, Executive Secretary, United Nations Framework Convention on Climate Change, at the European Patent Forum, Ljubljana, Slovenia, May 7, 2008.

³⁵ Third World Network "Brief note on technology, IPR and climate change", Third World Network Briefing Paper 2, February 23, 2008 (prepared for the Bangkok Climate Change Talks, March 31 to April 4, 2008).

³⁶ Copenhagen Economics, "Are IPRs a barrier to the transfer of climate change technology?", January 19, 2009. In 2008, 1 in 5 patents for the relevant technologies was protected in a developing country. Among sampled developing countries, nearly all patents (99.4%) are found in a small group of emerging market economies, and there is a large group of low-income developing countries that protect very few patents (0.6%).

³⁷ "The Role of publicly funded research and publicly owned technologies in the transfer and diffusion of environmentally sound technologies", UNCTAD/ITE/IIP/9, 2000.

³⁸ According to an industry representative, the private sector accounts for 60-80 per cent of all investment in clean technology R&D (presentation by Carl Horton at WIPO Conference on Intellectual Property and Public Policy Issues, July 13 and 14, 2009, Geneva [http://www.wipo.int/meetings/en/2009/ip_gc_ge/index.html]).

³⁹ One expert noted that economic, human and institutional factors explain the low level of technology transfer in environmentally sound technologies (presentation by Jukka Uosukainen at WIPO Conference on Intellectual Property and Public Policy Issues, July 13 and 14, 2009, Geneva [http://www.wipo.int/meetings/en/2009/ip_gc_ge/index.html]).

⁴⁰ International Center for Trade and Sustainable Development (ICTSD) "Climate change, technology transfer and intellectual property rights", August 2008.

technologies should no longer be the framework of analysis.⁴¹ He concludes that intellectual property cannot be considered in isolation from other factors and the importance and role of intellectual property rights varies from one context to another. Another scholar suggests that the obstacles caused by patent protection in developing and transferring technology can be different from one technological field to another, which could mean that the interaction between the patent system and research, development and transfer of technology can only be examined within specific fields of technology.⁴²

70. Nevertheless, it is a fact that there exists a vast disparity in technological capacity among countries, not only between developing and developed countries but among developing countries. Even if patent protection is not an obstacle to the transfer of technology, this does not necessarily mean that the current patent system fully contributes to the promotion of technology transfer. How the patent system could better contribute to promoting technology transfer and narrowing the technological capacity gap among countries is a challenge that involves all stakeholders, including policy makers, technology holders and technology users from both developed and developing countries.

B. ECONOMIC PERSPECTIVES

71. While a number of economic studies have been conducted with respect to patents and the transfer of technology, it appears that there is no conclusive evidence that demonstrates either a positive or negative impact of patent protection on technology transfer. This may be partly due to the difficulty of measuring technology transfer quantitatively and to the fact that patent protection is only one among many factors influencing such a transfer. The lack of conclusive evidence, however, does not diminish the important contributions that economic studies have made to the better understanding of the subject.

(i) Effects of IPRs on trade

72. International trade is one of the various channels through which technologies are disseminated internationally. There are a number of economic studies that have looked into the impact of IPR protection on trade. Maskus and Penubarti (1997) analyzed exports from 22 OECD countries to a sample of 25 developing countries, and concluded that stronger patent laws in developing countries have a positive impact on bilateral imports into both small and large developing countries.⁴³ On the one hand, strong IPR protection in the importing country may encourage foreign firms to export patented goods, while it may reduce the possibility of domestic firms imitating the patented technology and strengthen the market power of foreign firms. One study suggests that the enhanced market power for foreign firms created by stronger patents would dominate in smaller countries with weak imitation capacity, but the larger market size generated by the reduced abilities of local firms to imitate would dominate in larger countries with strong imitation capacity.⁴⁴

⁴¹ [Meir Perez Pugatch, WIPO Global Challenges Report “Intellectual property and the transfer of environmentally sound technologies” \(June 2011\).](#)

⁴² [Frederick Abbott, “Innovation and technology transfer to address climate change: lessons from the global debate on intellectual property and public health”, ICTSD Issue Paper 24, June 2009.](#)

⁴³ Keith Maskus and Mohan Penubarti “Patents and international trade: an empirical study” in *Keith Maskus et. al.(ed.), Quiet Pioneering: the international economic legacy of Robert Stern, 1997.*

⁴⁴ Keith Maskus and Mohan Penubarti “How trade-related are intellectual property rights?”, *Journal of International Economics*, vol. 39, 1995.

73. One research paper suggests that stronger IPR protection has significantly positive effects on total trade, but the IPRs' strength is irrelevant to trade in high-technology products.⁴⁵ Another found that the strength of IPR protection had no effect on the volume of exports from the United States of America to those countries where a technology holder faces no threat of imitation. However, a positive relationship between IPR protection and trade was found in those countries where a stronger threat of imitation existed.⁴⁶ The results of those studies may suggest that the level of IPR protection may have an impact on trade flows between countries in general, but it may also depend on the level of development, the market structure and the imitation capability.

(ii) Effects of IPRs on FDI

74. As described earlier, foreign direct investment (FDI) is one of the channels for transferring technologies from one party to another.⁴⁷ There is less conclusive evidence regarding the impact of patent protection on the level of FDI. Some studies found no effect of IPRs on FDI,⁴⁸ while others suggest a positive relationship between IPRs and flows of FDI.⁴⁹ However, even for those who take the latter position, IPRs are considered as one among many variables that determine the attractiveness of an FDI location. One researcher states that emerging economies should recognize the strong complementarities among IPRs, market liberalization and deregulation, technology development policies and competition regime.⁵⁰

75. Some researchers examined whether technology transfer behavior of US multinational firms changes in response to legal reforms that had strengthened IPR protection, and found that changes in the IPR regime abroad led to an increase in technology transfer by US multinationals to IPR-reforming countries.⁵¹ In a firm-level study, another researcher studied data on multinational companies investing in Eastern Europe and the former Soviet Union, and found that investors in sectors relying heavily on IP protection were deterred by a weak IP regime.⁵² It was concluded

⁴⁵ Carsten Fink and Carlos Primo Braga "How stronger protection of intellectual property rights affects international trade flows" in *Carsten Fink and Keith Maskus (ed.), Intellectual Property and Development*.

⁴⁶ Pamela J. Smith, "Are weak patent rights a barrier to U.S. Exports?", *Journal of International Economics*, 48, vol. 20, 1999.

⁴⁷ The latest statistics on FDI trends and flows can be found in the World Investment Report 2010, at: <http://www.unctad.org/templates/webflyer.asp?docid=13423&intItemID=2068&lang=1>.

⁴⁸ Michael J. Ferrantino, "the effect of intellectual property rights on international trade and investment", *Weltwirtschaftliches Archiv*, vol. 129, 1993; Edwin Mansfield, "Unauthorized use of intellectual property: effects on investment, technology transfer and innovation" in *M. B. Wallerstein, M. E. Moguee and R. A. Schoen (ed), Global Dimensions of Intellectual Property Rights in Science and Technology*, 1993; Keith Maskus and Denise Eby-Konan, "Trade related intellectual property rights: issues and exploratory results" in *A. Deardoff and R. M. Stern (ed), Analytical and negotiating issues in the Global Trading System*, 1994.

⁴⁹ An OECD study concluded that the index for patent rights tends to be positively associated with inward FDI, holding other factors constant. Such a relationship holds for developed, developing and least-developed countries though quantitatively the association is strongest in developed countries (Walter Park and Douglas Lippoldt "Technology transfer and the economic implication of the strengthening of intellectual property rights in developing countries" OECD Trade Policy Working Paper No. 62, TAD/TC/WP(2007)19/FINAL).

⁵⁰ Keith Maskus, "The role of intellectual property rights in encouraging foreign direct investment and technology transfer", in *Carsten Fink and Keith Maskus (ed.), Intellectual Property and Development*.

⁵¹ Lee G. Branstetter, Raymond Fisman and C. Fritz Foley, "Do stronger intellectual property rights increase international technology transfer? Empirical evidence from US firm-level panel data", World Bank Policy Research Working Paper No. 3305, 2004.

⁵² Beata Smarzynska Javorcik, "The composition of foreign direct investment and protection of intellectual property rights: evidence from transition economies" in *Carsten Fink and Keith Maskus (ed.), Intellectual Property and Development*.

that the ~~weaker~~ ~~lack of~~ IP protection deterred investors from undertaking local production and encouraged them to focus on distribution of imported products.

76. Lee and Mansfeld (1996) examined the strength of IPR protection in a host country and the volume and composition of FDI from US firms. They found that the total volume of the FDI as well as the percentage of the FDI that was devoted to final production and to R&D facilities was lower in the host countries with weaker IPR protection.⁵³ Kumar (2002), however, found no relationship between the strength of IPR protection in the host country and the overseas R&D activities of transnational companies.⁵⁴ Finally, another study, however, finds that while there is no clear case that most developing countries will gain from strengthened IPR protection, the least-developed countries are most likely to lose in the short term. The paper suggest that the gains that might accrue through increased technological inflows are likely to be realized over the long term, while the costs for the domestic industry, in terms of increased difficulties to copy or reverse engineer foreign technology, will accrue immediately. The paper stresses, however, that more evidence is needed before a positive link between foreign direct investment and the licensing of technology to domestic firms on the one side and IPRs on the other side can definitely be established.⁵⁵

(iii) Effects of IPRs on licensing

77. In many cases of technology transfer, patent licensing agreements play an important role, as they allow access to the technology in question. The relationship between licensing, technology transfer and the strength of IPR protection can be highly complex due to the fact that technology licenses vary significantly from one agreement to the next.⁵⁶

78. Some researchers investigated how the strength of patent protection affects flows in international technology trade through licensing volumes, using data on US receipts for intellectual property from foreign unaffiliated firms and US affiliates overseas, and found the following: US receipts of unaffiliated royalties and license fees rise with stronger patent protection in the technology recipient country when the degree of initial patent protection was higher than a critical value; the ratio of US receipts of unaffiliated royalties and license fees to US exports is also higher with stronger patent protection; the US receipts of both affiliated and non-affiliated royalties and license fees are higher if the technology recipient country has a higher per capita GDP level and has a greater labor endowment; and there is weak evidence suggesting that openness to trade encourages export trade in relation to licensing.⁵⁷

79. Using a theoretical model, the same researchers found that stronger IPR protection in developing countries would increase the rate of innovation and the extent of high-quality licensing from developed countries to developing countries under particular conditions. Specifically, such an outcome requires that the labor force used in innovation, compared to that used in the production

⁵³ Jeongyong Lee and Edwin Mansfeld, "Intellectual property protection and US foreign direct investment", the Review of Economics and Statistics, vol. 78, 1996.

⁵⁴ Nagesh Kumar, "Determinants of location of overseas R&D activity of multinational enterprises: the case of US and Japanese Corporations", Research Policy, vol. 30, 2001.

⁵⁵ Sanjaya Lall, "Indicators of the relative importance of IPRs in developing countries", UNCTAD-ICTSD, Issue paper No. 3, June 2003.

⁵⁶ The latest row data on global royalty and license fee payments, including payments made in 2009, can be extracted from the World Bank electronic databases at:
<http://data.worldbank.org/indicator/BM.GSR.ROYL.CD>.

⁵⁷ Guifang (Lynn) Yang and Keith Maskus, "Intellectual property rights and licensing: an econometric investigation" in *Carsten Fink and Keith Maskus (ed.), Intellectual Property and Development*.

of goods anywhere in the world, is sufficiently small and that there remains a relatively large advantage of lower labor costs in developing countries.⁵⁸

80. Another researcher examined the effect of patent protection on technology transfer (e.g., marketing products, licensing arrangement, partnership, joint venture etc.) in the field of biotechnology, based on a survey of US and European firms. He found that enforcement concerns were paramount in limiting the willingness of the firms to transfer sensitive and valuable technology to specific countries.⁵⁹

81. In order to maximize their commercial benefit, companies use various types of formal and informal appropriation mechanisms, patent protection being just one of them. Based on the surveys of companies, many researchers conclude that patent protection is a less used means of appropriation compared to other means, such as sales or service efforts, lead time in the market, keeping qualified people in the firm or secrecy, although different mechanisms are rated differently in different countries, industries or types of inventions.⁶⁰ One researcher, however, suggests that the complementarities across different commercialization strategies be carefully examined in order to identify the true effect of patent protection in business strategies.⁶¹ For example, since patent protection can have a positive impact on extending lead time in the market and creating cost reduction in production, the real importance of patent protection for companies cannot be accurately assessed without evaluating the complementarities of these factors.

82. Although the question as to whether a “stronger” or “weaker” patent system is supportive of transfer of technology or not is often raised, one scholar considers that the real issue is whether a country adequately enforces the laws and regulations it has in place in order to provide transparency and certainty for investors, licensees and customers.⁶²

C. CHALLENGES

83. While a number of economic researchers have examined the strength of IPR protection and its effect on trade or foreign investment, as suggested by the CIPR Report, the crucial point in respect of IPRs, and in particular patents, is not whether they promote trade or foreign investment, but how they help or hinder access to the required technology by those who are in need of such

⁵⁸ Guifang Yang and Keith Maskus, “Intellectual property rights, licensing and innovation”, World Bank Policy Research Paper No. 2973, 2003.

⁵⁹ William Lesser, “Role of IPR in Biotechnology Transfer - Corporate Views” [http://www.wipo.int/about-ip/en/studies/pdf/ssa_lesser_biotech.pdf].

⁶⁰ Levin, Richard C. et. al. “Appropriating the returns from industrial research and development”, *Brookings Papers on Economic Activity*, vol.3, 1987, p.783-831; Najib Harabi “Appropriability of technical innovations: an empirical analysis”, *Research Policy*, Elsevier, vol. 24(6), November 1995, p.981-992; John Kitching and Robert Blackburn “Intellectual property management in the small and medium enterprise (SME)”, *Journal of Small Business and Enterprise Development*, vol.5, issue 4, 1998, p.327-335; Ove Granstrand “The Economics and Management of Intellectual Property”, Edward Elgar Publishing Ltd, Cheltenham, U.K, 1999; Cohen et. al. “Protecting their intellectual assets: appropriability conditions and why U.S. manufacturing firms patent (or not)”, NBER Working Paper No. 7552, 2000; Leiponen, A. and Byma, J. “If you cannot block, you better run: small firms, cooperative innovation, and appropriation strategies”, *Research Policy*, vol.38, 2009, p.1478-1488.

⁶¹ Ove Granstrand “Patents and innovation for growth in a converging world economy”, presentation at the WIPO Seminar Series on the Economics of Intellectual Property, September 5, 2011, Geneva.

⁶² Keith Maskus “Encouraging international Technology Transfer”, UNCTAD-ICTSD Project on IPRs and Sustainable Development, Issue Paper No. 7, May 2004.

technology.⁶³ For example, the CIPR Report states that, if a foreign technology company licenses production to a domestic firm, rather than establishing manufacturing locally, less foreign investment will have been attracted. However, the overall result may be more beneficial to the domestic economy because of the indirect contribution to domestic technological capacities. Furthermore, from a policy perspective, such access to required technology should be sustainable, i.e., without disproportionately diminishing incentives for innovators to invest in “further” innovation.

84. Therefore, the relationship between competition patterns, production and innovation in one country is different from that of another country, and consequently, there are differences in the pattern of use of intellectual property rights and other appropriability mechanisms at firm and sectoral level.⁶⁴ In a similar manner, differences in the use of various appropriability mechanisms should also be found when comparing countries which are at different stages of industrial and technological development.⁶⁵ Such a hypothesis suggests that the dynamics of technology transfer and its interaction with an intellectual property mechanism are different from one country to the next, meaning that there is no one single intellectual property law and policy that maximizes the transfer of technology in any given country.

85. Nevertheless, there may be a number of common questions and challenges shared by many countries. Firstly, according to property rights theory, unclearly defined and/or insecure property rights (i.e., weak appropriability) are the sources of imperfections in the market.⁶⁶ In the context of patents, this means that clear rules are needed with respect to the ownership, including inventorship, of a patent and the boundary of protection, i.e., clear scope of claims. Where a patent is licensed, a licensing agreement should clearly determine the rights and obligations of parties concerned. [In more general terms, high quality patents that fully meet the requirements under the applicable patent law are more credible in the market. Patents with questionable enforceability simply raise uncertainty on the patentee's side as well as on the licensee's side. To ensure the credibility of the property rights, Further, there should also be an appropriate mechanism to enforce patents and challenge the patents with questionable validity.](#)

86. Secondly, information asymmetry between the patent holder and a prospective licensee (or patent purchaser) is another problem. Certainly, the publication of clear and complete disclosure of a patented invention narrows the information gap. However, the availability of technical information as well as legal information relating to patents in the Registry of a patent office does not necessarily mean that they are easily accessible to the public. In order to carry out a technology transaction, a potential buyer (a potential licensee and patent purchaser) and a potential seller (a patentee) of the given technology need to be identified. A qualified patent expert may be able to play an important role in narrowing the information gap by understanding the business needs of a party, analyzing a patent, in particular, patent claims, and negotiating with another party.

87. The third question relates to how to reduce transaction costs. Transparency of relevant information is of fundamental importance. Clear licensing rules with balanced rights and

⁶³ Commission on Intellectual Property Rights “Integrating Intellectual Property Rights and Development Policy”.

⁶⁴ Andres López, “Innovation and appropriability, empirical evidence and research agenda” in *The Economics of Intellectual Property, WIPO Publication No. 1012*.

⁶⁵ [Commission on Intellectual Property Rights “Integrating Intellectual Property Rights and Development Policy”.](#)

⁶⁶ Jongwook Kim and Joseph Mahoney, “Property rights theory, transaction costs theory, and agency theory: an organizational economics approach to strategic management”, *Managerial and Decision Economics*, vol. 26, pp. 223-242, 2005.

obligations for licensees and licensors increase legal certainty and reduce costs. In this context, an enabling environment that promotes licensing agreements supportive of competition in the market may play an important role. Further, the quality of granted patents may also be relevant to the effective transfer of technology, since proliferation of sub-standard patents would decrease legal certainty with respect to the validity of patents, and raise the transaction costs of knowledge transfer. [Furthermore, the clarity of patent laws, regulations and guidelines, as well as a consistent application of such legal instrument by relevant authorities and courts, may reduce transaction costs.](#) Financial incentives, such as reduction of fees or taxes associated with the technology transaction, may be another option worthy of consideration.

88. The fourth question relates to the right balance between the interests of the patent holder and third parties, and the prevention of abuse or misuse of patent rights or market power. In principle, the granting of exclusive patent rights is considered as an incentive for investment in innovation. To correct the potential inefficiencies of the market power created by such exclusive rights, a number of mechanisms are provided in the patent system, such as patentability requirements and disclosure requirements. Nevertheless, granting full exclusive rights in all circumstances may not always contribute to the promotion of [further](#) innovation and to the transfer and dissemination of technology for the enhancement of public welfare and social benefits. Consequently, the scope of enforceable exclusive rights is carefully designed in order to strike the right balance with the interests of other parties, who may be prevented from using the patented invention for a limited period. Those measures can be established within the patent system, e.g., certain limitations to patent rights such as a research exemption and compulsory licenses, and outside the patent system, e.g., competition law and policy.

VI. THE INTERNATIONAL REGULATORY FRAMEWORK

89. With the increase of globalization and transnational trade flows, the link between patents, trade and the transfer of technology has been increasingly recognized at the international level, as can be seen, for example in Articles 7, 8 and 66.2 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement). Article 7 of the TRIPS Agreement states that:

“The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations.”

90. Further, Article 8 establishes principles that:

“1. Members may, in formulating or amending their laws and regulations, adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic development, provided that such measures are consistent with the provisions of this Agreement.”

“2. Appropriate measures, provided that they are consistent with the provision of the Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.”

91. Article 66.2 of the TRIPS Agreement states:

“Developed country members shall provide incentives to enterprises and institutions for the purpose of promoting and encouraging technology transfer to least-developed country members in order to enable them to create a sound and vital technological base.”

92. With respect to the implementation of Article 66.2, the WTO Doha Decision on Implementation-Related Issues and Concerns, adopted by the WTO Ministerial Conference in November 2001, states that:

“11.2 Reaffirming that the provisions of Article 66.2 of the TRIPS Agreement are mandatory, it is agreed that the TRIPS Council shall put in place a mechanism for ensuring the monitoring and full implementation of the obligations in question. To this end, developed country members shall submit prior to the end of 2002 detailed reports on the functioning in practice of the incentives provided to their enterprises for the transfer of technology in pursuance of their commitments under Article 66.2. These submissions shall be subject to a review in the TRIPS Council and information shall be updated by Members annually.”⁶⁷

93. The Declaration on the TRIPS Agreement and Public Health also reaffirmed the commitment of developed country members to provide incentives to their enterprises and institutions to promote and encourage technology transfer to least-developed country Members pursuant to Article 66.2.⁶⁸ The TRIPS Council, in 2003, decided on the procedures for the submission and review of reports by developed country members and agreed on the list of issues to be reported.⁶⁹

94. While it is acknowledged that building up technological capacities in LDCs would take time, some studies have questioned the effectiveness of Article 66.2 for technology transfer to developing countries, since the provision is restricted to LDCs⁷⁰ and no assessment regarding the nature and magnitude of the incentives has been made.⁷¹ One scholar analyzed the submissions relating to Article 66.2 by developed countries to the Council of TRIPS, and concluded that submissions were irregular, did not specifically target LDCs, and did not provide sufficiently detailed data to determine whether Article 66.2 led to any additional incentive beyond business as usual.⁷²

95. During the last TRIPS Council Meeting on February 17, 2011, some WTO Members made various proposals on how to streamline the notification process under TRIPS Article 66.2.⁷³ Issues raised by WTO Members were related to underline the content and format of the Article 66.2 reporting mechanism, as well as to substantive aspects of the implementation of this provision. On the substantive aspect, Members raised questions about: (i) the scope and definition of transfer of technology in general terms, in relation to Article 66.2 itself, and in other specific contexts;⁷⁴ (ii) the

⁶⁷ WTO document WT/MIN(01)/17.

⁶⁸ WTO document WT/MIN(01)/DEC/2.

⁶⁹ WTO document IP/C/28.

⁷⁰ Commission on Intellectual Property Rights “Integrating Intellectual Property Rights and Development Policy”.

⁷¹ Carlos Correa, “Can the TRIPS Agreement foster technology transfer to developing countries?” in *Keith Maskus and Jerome Reichman (ed.), International Public Goods and Transfer of Technology Under a Globalized Intellectual Property Regime*.

⁷² Suerie Moon, “Does TRIPS Art. 66.2 encourage technology transfer to LDCs?”, ICTSD-UNCTAD, Policy Brief No. 2, December 2008.

⁷³ WTO document IP/C/M/64, para 336-7.

⁷⁴ Issues relating to the lack of an internationally agreed definition of “technology transfer” have been raised in various contexts and many times. In the framework of the implementation of Article 66.2 of the TRIPS Agreement, the lack of definition was viewed by some commentators as allowing reporting Members to stretch the definition of technology transfer to meet the obligations under that provision without making the necessary policy changes (see for example, Suerie Moon, 2008). Prior attempts have been made to define transfer of technology in a Draft Code of Conduct at the United Nations Conference on Trade and Development (UNCTAD) which was never finalized. The Draft Code of Conduct (1985 version) stated in Chapter 1.2 that “Transfer of technology under this Code is the

specificity of reported programmes provided for LDCs in particular; (iii) the nature of incentives for technology transfer; (iv) the choice of appropriate technology in line with priority needs identified by the LDCs themselves; (v) sustainability in ensuring continued access to technology on which training was given; and (vi) the distinction between incentives for technology transfer to be reported upon under Article 66.2 and the technical assistance activities to be reported upon under Article 67.

96. The TRIPS Agreement contains a number of substantive provisions, including enforcement provisions, with which the Members of the WTO must comply. Since many of them are not found in the international treaties which were adopted in the pre-TRIPS era, the TRIPS Agreement is considered as an international instrument that strengthened IPR protection at the global level. For those who take the view that stronger IPR protection has a positive impact on trade, FDI and technology licensing (see Chapter V(B)), the TRIPS Agreement may be considered as an international instrument that is supportive of trade, FDI and technology licensing. However, the implication of the TRIPS Agreement for developing countries is much disputed.⁷⁵ Some scholars consider that conforming to the TRIPS Agreement might be desirable in the long run for developing countries (if it occurs not only in statute books but in reality).⁷⁶ Some others argue that developing countries should use the flexibilities under the TRIPS Agreement in order to strike a balance between internal growth needs and incentives for outside investment.⁷⁷ One scholar puts developing countries into three categories, that is: (i) countries where the benefits of innovations outweigh the additional rent due to the TRIPS Agreement; (ii) countries where the additional rent due to the TRIPS Agreement outweighs the benefits of innovation; and (iii) the countries below a certain development threshold that cannot benefit from the TRIPS Agreement (and are now exempt from most TRIPS obligations).⁷⁸ In his view, for the LDCs, strong IPRs will probably not be appropriate in all situations, and policy goals should aim to move countries from group (ii) to group (i) through developing domestic industrial innovation potential.

[Footnote continued from previous page]

transfer of systematic knowledge for the manufacture of a product, for the application of a process or for the rendering of a service and does not extend to the transactions involving the mere sale or mere lease of goods.” Further the Draft Code of Conduct states that “transfer of technology transactions are arrangements between parties involving transfer of technology” which include “(a) The assignment, sale and licensing of all forms of industrial property, except for trade marks, service marks and trade names when they are not part of transfer of technology transactions; (b) The provision of know-how and technical expertise in the form of feasibility studies, plans, diagrams, models, instructions, guides, formulae, basic or detailed engineering designs, specifications and equipment for training, services involving technical advisory and managerial personnel, and personnel training; (c) The provision of technological knowledge necessary for the installation, operation and functioning of plant and equipment, and turnkey projects; (d) The provision of technological knowledge necessary to acquire, install and use machinery, equipment, intermediate goods and/or raw materials which have been acquired by purchase, lease or other means; (e) The provision of technological contents of industrial and technical co-operation arrangements.”

⁷⁵ One expert notes that the advantages and disadvantages that the TRIPS Agreement brings to developing countries should be assessed in the context of the package of agreements establishing the WTO and not in isolation (see Nuno Pires de Carvalho “The TRIPS regime of patent rights”, Kluwer Law International, 2002.

⁷⁶ Sunil Kanwar and Robert Evenson, “Does intellectual property protection spur technological change?”, Oxford Economic Papers vol.55, 2003, p.235.

⁷⁷ Carlos M. Correa “International Property Rights, the WTO and Developing Countries: TRIPS Agreement and Policy Options”, 2000; Tu Thanh Nguyen “Competition law, technology transfer and the TRIPS Agreement – implications for developing countries”, Edward Elgar, 2010.

⁷⁸ Daniel Gervais, “(Re)implementing the Agreement on Trade-Related Aspects of Intellectual Property Rights to Foster Innovation”, World Intellectual Property Journal, vol.12, 2009, p.348.

97. A provision that addresses the international transfer of relevant technologies is also found in many multilateral environment agreements (MEAs). The development, application and transfer of technology are core elements in the implementation of MEAs. Intellectual property rights, in particular, patents, in the context of transfer of environment-related technologies are covered in different ways in various MEAs.⁷⁹ Many agreements state that technology transfer should be provided to developing countries “in fair and most favorable conditions or terms” including “on concessional and preferential terms, as mutually agreed”. The Convention on Biological Diversity (CBD) and the Convention to Combat Desertification (CCD) are two conventions that refer to intellectual property rights explicitly in conjunction with the transfer of technology.

98. As regards the CBD, it recognizes that access to, and the transfer of, technology are essential elements for the attainment of its objective, and the Convention requires Parties to provide and/or facilitate access for, and the transfer to, other Parties of technologies that are relevant to the conservation and sustainable use of biological diversity or make use of genetic resources (Article 16.1). The Convention also provides that access to, and the transfer of, technology to developing countries “shall be provided and/or facilitated under fair and most favorable terms, including on concessional and preferential terms where mutually agreed,” and in a way “consistent with the adequate and effective protection of intellectual property rights” if the technology is subject to patents and other intellectual property rights (Article 16.2). In relation to the transfer of technology, issues concerning capacity building, research and training, education and awareness raising, exchange of publicly available information and technical and scientific cooperation, are also covered by the Convention (Articles 12, 13, 17 and 18).

99. Under the program of work on technology transfer and technological and scientific cooperation adopted by the Conference of Parties (COP) in 2004, a technical study on the role of intellectual property rights in technology transfer in the context of the CBD was prepared jointly by the Secretariats of the CBD, UNCTAD and WIPO.⁸⁰

100. Technology lies at the center of the climate change debate as well. International legal instruments and global policy debates place high emphasis on the role of technology in addressing the challenge of climate change. For example, Article 4.1 of the [United Nations Framework Convention on Climate Change \(UNFCCC\)](#) states that all Parties to the Convention promote and cooperate in the development, application and diffusion, including transfer, of technologies, practices and processes that control, reduce or prevent anthropogenic emissions of greenhouse gases, and promote and cooperate in the full, open and prompt exchange of relevant scientific, technological, technical, socio-economic and legal information related to climate change. The UNFCCC includes a specific commitment by developed countries regarding provisions of financial resources and technology transfer in Articles 4.3 and 4.5, respectively. In particular, Article 4.5 states that:

“The developed country Parties and other developed Parties included in Annex II shall take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and know-how to other Parties, particularly developing country Parties, to enable them to implement the provisions of the Convention. In this process, the developed country Parties shall support the development and enhancement

⁷⁹ Presentation by Constanza Martinez, “The Use of IP Rights in the Transfer of Technology under Multilateral Environmental Agreements (MEAs)” at the WIPO Symposium on Patent Landscaping and Transfer of Technology under Multilateral Environmental Agreements, August 26, 2008, Geneva [http://www.wipo.int/meetings/en/2008/lifesciences/ip_iss2_ge/].

⁸⁰ UNEP/CBD/COP/9/INF/7.

of endogenous capacities and technologies of developing country Parties. Other Parties and organizations in a position to do so may also assist in facilitating the transfer of such technologies.”

101. Article 4.7 links the effective implementation of the Convention by developing countries to the implementation of the above commitments by developed countries as follows:

“The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to financial resources and transfer of technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties.”

102. While the text of the UNFCCC does not explicitly refer to intellectual property rights or patents, intellectual property issues have been raised in conjunction with the review of the implementation of commitments made by the Contracting Parties, in particular by developed country Parties, under Article 4. How intellectual property could be best addressed in the framework of the UNFCCC is part of the ongoing debate.⁸¹

~~103. One scholarly preliminary suggests that technologies relating to climate change should be less dependent on strong patent protection, and/or that patents are less likely to cause significant bottlenecks in the development and transfer of such technologies for developing countries in the context of climate change than for public health.⁸² An UNCTAD report⁸³ revealed that a broad range of environmentally sound technologies was available to meet the needs of developing countries.⁸⁴ It states that while public-funded R&D in the development of such technologies was significant, only a small proportion of public-funded technologies are patented, commercialized or transferred, due to, among other reasons, the costly and lengthy process of obtaining patent rights, the lack of knowledge about the business aspects of technology development, the absence of an incentive structure conducive to the commercialization of research results, and the fact that many R&D activities are still too upstream in many countries.⁸⁵ The recent study indicates that many challenges to the dissemination and transfer of innovation in general are found in the area of eco-innovation.⁸⁶ Absorption and adaptation of technologies to local needs, the existence of~~

⁸¹ Background documents, working documents and reports concerning the UNFCCC are available at: <http://unfccc.int>. Recent negotiations are summarized in: “The technology transfer debate in the UNFCCC: politics, patents and confusion”, Intellectual Property Quarterly Update, Fourth Quarter 2008, South Center and CIEL, and presentations made by Jukka Uosukainen and Wanna Tanunchaiwatana at WIPO Conference on Intellectual Property and Public Policy Issues, July 13 and 14, 2009, Geneva [http://www.wipo.int/meetings/en/2009/ip_gc_ge/index.html].

⁸² ~~Frederick Abbott, “Innovation and technology transfer to address climate change: lessons from the global debate on intellectual property and public health”, ICTSD Issue Paper 24, June 2009.~~

⁸³ ~~“The Role of publicly funded research and publicly owned technologies in the transfer and diffusion of environmentally sound technologies”, UNCTAD/ITE/IIP/9, 2000.~~

⁸⁴ ~~According to an industry representative, the private sector accounts for 60-80 per cent of all investment in clean technology R&D (presentation by Carl Horton at WIPO Conference on Intellectual Property and Public Policy Issues, July 13 and 14, 2009, Geneva [http://www.wipo.int/meetings/en/2009/ip_gc_ge/index.html]).~~

⁸⁵ ~~One expert noted that economic, human and institutional factors explain the low level of technology transfer in environmentally sound technologies (presentation by Jukka Uosukainen at WIPO Conference on Intellectual Property and Public Policy Issues, July 13 and 14, 2009, Geneva [http://www.wipo.int/meetings/en/2009/ip_gc_ge/index.html]).~~

⁸⁶ ~~Daniel Johnson and Kristina Lybecker, “Challenges to technology transfer: a literature review of the constraints on environmental technology dissemination”, Colorado College Working Paper No. 2009-07.~~

~~complementary factors other than patents that affect innovation and the effective transfer of technology, information asymmetries and uncertainty regarding the qualities of the innovation are some of the challenges identified by the authors.~~

~~104. A detailed patent-based analysis regarding alternative energy technologies⁸⁷ demonstrates the possibilities of patent information in identifying and analyzing existing and future technologies, and the usefulness of patent information in a wider policy discussion.~~

105. As described in Chapter VII, various aspects of the patent system may have implications for the transfer of technology. In this respect, some provisions under the TRIPS Agreement which are not mentioned above may be also relevant to the effective transfer of technology. These include: [Article 27 concerning patentable subject matter](#), [Article 28 concerning the patent rights conferred](#), [Article 29.4 concerning the disclosure requirement and disclosure of other information](#), [Articles 30 and 31 concerning exceptions and limitations to the right](#), [Article 32 concerning revocation/forfeiture](#) and [Article 40 with respect to control of anti-competitive practices in contractual licenses](#).

106. In addition, the Patent Law Treaty (PLT) provides provisions concerning procedural requirements regarding a request for recording a change of applicant or owner, a request for recording a change of name or address and a request for recording a license or a security interest, with a view to avoiding unreasonable complexities in national patent procedures. Those provisions aim at the timely and efficient recording of information relating to patent owners and related licenses, which would support disseminating accurate up-to-date information concerning the owner of the rights and their licensing status. Consequently, they may be indirectly relevant to the transfer of technology.

107. In addition to the cited multilateral agreements,⁸⁸ an increasing number of various bilateral and regional agreements containing IP provisions have been signed in recent years between countries at different levels of development. These may entail, for example, free-trade agreements (FTAs) and economic cooperation agreements.⁸⁹ Although not all, many of these agreements contain provisions on transfer of technology. For example, in the recent two FTAs negotiated between the United States of America with Peru and Colombia, the importance of promoting technological innovation, disseminating technological information and building technological capacity through, *inter alia*, collaborative scientific research projects is recognized. To this end, “the Parties shall give priority to collaborations that advance common goals in science, technology and innovation; and support partnerships between public and private research institutions and industry. Any such collaborative activities or transfer of technology shall be based on mutually agreed terms.” An example of an economic cooperation agreement is the Cotonou Agreement concluded between members of the African, Caribbean and Pacific Group of States (ACP) and the European Union that sets out the objective of supporting capacity building in developing countries that contributes to transfer of technology.⁹⁰

⁸⁷ ~~“Patent based technology analysis report—alternative energy technology”~~

~~{http://www.wipo.int/patentscope/en/technology_focus/alternative_energy.html}-~~

⁸⁸ [UNCTAD Compendium of International Arrangements on Transfer of Technology \(UNCTAD/ITE/IPC/Misc.5\) lists technology transfer provisions in a number of multilateral, regional and bilateral agreements.](#)

⁸⁹ Examples of FTAs containing IP provisions are: the EC – CARIFORUM Economic Partnership Agreement negotiated between the European Community and the Group of Caribbean States; the Central American Free Trade Agreement (CAFTA) between the United States of America and Central American Countries; and the Agreement between Japan and Indonesia for an Economic Partnership.

⁹⁰ Article 21 of the Agreement states that: “Cooperation shall promote business development through the provision of finance, guarantee facilities and technical support aimed at encouraging and

108. In relation to technology transfer, one of the major issues regarding these agreements, as has been stated by some commentators, is the extent to which they set IP rights going beyond those agreed multilaterally.⁹¹ Thus, some commentators refer to FTA provisions concerning, *inter alia*, compensatory extensions of the patent term in case of administrative delays and/or marketing approvals, limitation of the grounds for use of compulsory licensing, limitation on parallel importation, elimination of flexibility on the scope of patentable subject matter and strong enforcement rules. In addition, in the framework of access to pharmaceuticals, provisions on protection of pharmaceutical test data contained in some FTAs were intensively discussed as going beyond the requirements set by the TRIPS Agreement. While a thorough examination of those provisions was made from the political and legal perspectives, empirical studies assessing the full economic and social effects of IP provisions in the FTAs on technology transfer appear to be lacking. This may be due to the fact that it is inherently difficult to quantify the implications of changing intellectual property standards as a result of, *inter alia*, signing various bilateral and regional agreements. Therefore, the impact of these agreements on technology transfer remains untested.⁹²

VII. DESIGNING PATENT LAWS: LEGAL FRAMEWORK AND FLEXIBILITIES

109. Although a linkage between the patent system and the dissemination of technologies lacks clear evidence and their relationship is not obvious, it may be possible to identify certain elements in the patent system that could have implications for the transfer of technology. Those elements, as described in detail below, are multifaceted.

110. The patent system is intended to correct the under-provision of technology and knowledge, which are classified as public goods, by providing innovators with the exclusive right to prevent others from exploiting the patented inventions without their consent. In other words, it packages the technology [that meets specific patentability conditions](#) in a property with a defined ownership and technical scope, which can be transferred or licensed to others. The disclosure of patented inventions allows others to learn about the patented technology, which contributes not only to the tacit transfer of technology but also to the transfer of technology through licensing agreements and transfer of rights. On the other hand, too strong exclusive rights could hamper access to, and the transfer of, technology and could be abused or misused. In order to safeguard the interests of technology users, there are a number of measures taken in order to strike the right balance between the interests of patent holders and third parties. Such measures are found both within the patent system, e.g., the exceptions and limitations to the rights, and outside the patent system, e.g., the application of the competition law. In addition, a supportive environment plays an

[Footnote continued from previous page]

supporting the creation, establishment, expansion, diversification [...] of dynamic, viable and competitive enterprises in all economic sectors as well as financial intermediaries such as development finance and venture capital institutions, and leasing companies by: (d) encouraging inter-firm linkages, networks and cooperation including those involving the transfer of technology and know-how at national, regional, and ACP EU levels, and partnerships with private foreign investors which are consistent with the objectives and guidelines of ACP-EC Development Cooperation.” Second Revisions of the Cotonou Agreement- Agreed Consolidated Text, 11 March 2010.

⁹¹ See, for example, Carsten Fink and Patrick Reichenmiller, Trade Note “Tightening TRIPS: The Intellectual Property Provisions of Recent US Free Trade Agreements, 2005; Pedro Roffe, “Intellectual property, bilateral agreements and sustainable development: The Challenges of Implementation”, CIEL, 2007.

⁹² Nevertheless, some studies have been made analyzing the correlation between the level of IPR protection and technology transfer, see Chapter V(b).

important role in the transfer of technology. The following paragraphs describe those elements and indicate how they could relate to various stages of technology transfer.

A. DEFINING THE TECHNOLOGY TO BE TRANSFERRED

111. The first area relates to elements that define the technology to be transferred. The patent system has transformed ~~public good~~ knowledge that meets specific conditions prescribed under the applicable law into a tradable property with defined ownership and limits of the right. Patent law requires clear indications of the owner of the right and the scope of the right which is defined by the claims. Ambiguity in the ownership or unclear limits to the scope of patent protection only creates uncertainty and potential disputes, and thus becomes a barrier to the effective transfer of technology. Above all, in order to obtain patent protection, the invention must meet the conditions of patentability. Granting patents on only those inventions that meet the patentability requirements ensures certainty about the validity of patents and avoids the appropriation of technologies which should be left in the public domain.

(i) Ownership and inventorship

112. The ownership of patents is one of the fundamental issues that define property rights. Ambiguity of ownership, either in the legal system or in each individual case, only creates uncertainty and potential disputes, which runs counter to the efficient transfer of technology. The transfer of patented technology presupposes the legal ownership of the technology concerned. Patent law defines the issues such as who has the right to a patent and what kind of property right the patent owner may enjoy.

113. Many national laws provide that, in principle, the right in a patent belongs to the inventor or his or her successor in title. In cases where there is more than one inventor, the right to a patent belongs to the inventors jointly. In many countries, national laws provide a special provision for employee's inventions where an invention is made in the performance of an employment contract, or an employee used materials or other resources of the employer. In essence, many national laws provide that the right in a patent belongs to an employer where its employee made an invention in the course of his or her normal professional duties, unless any contractual provisions to the contrary exist.

114. However, this is not the case in some other countries, e.g., in Germany and Japan. In Germany, in principle, an employee inventor has a right to patent. He or she, however, has a duty to notify an employee's invention to his or her employer without undue delay. Unless the employer releases the invention to the employee within four months from the notification, the right to the patent is transferred to the employer. ~~The employer has the right to claim the employee's invention within four months from the notification, and to file a patent application in Germany without undue delay, unless the invention falls under trade secret.~~ On the other hand, the employee has the right to remuneration. ~~If the employer fails to claim his or her right in the invention within the above four-month period, the right remains with the inventor employee. If the employer abandons his or her right in a patent application, the employee can take over the right in the application.~~ Guidelines on calculating the entitled remuneration are published by the authorities, and in the case of a dispute on the amount of remuneration, the patent office provides arbitration. In Japan, a right in a patent belongs to an employee inventor in cases of employees' inventions. The statutory right of an employer is an entitlement to a non-exclusive license for the patent obtained by the employee. In reality, a contractual agreement is concluded between the employer and the employee to the effect that the employee assigns his or her right in a patent to the employer. When he or she assigns his or her right to, or concludes an exclusive license with, the employer, the employee shall have the right to reasonable remuneration.

115. Ownership of patents as a result of public-funded research or created by public research institutions, including universities, is an area that has attracted significant attention in the recent past. In those countries where the right in a patent belongs to the employer in the cases of employees' inventions, the same analogy could be applied with respect to the inventions created by researchers during the course of their employment at a public research institute or a university. Another line of thinking could be that, if the inventive activities by researchers in the public sector are financed by public funds, the fruit of such research, i.e., inventions, shall belong to the State or to the local government. The recent trend, however, is to allow public research institutions and universities to claim ownership of inventions created by their researchers, with an appropriate mechanism to remunerate the inventor researchers and taking into account the public dimensions so that the public research results would best serve the public interests. For example, in Germany, in the past, professors had so-called "professor's privilege" under which he or she holds the rights in his or her inventions. Therefore, they are free to apply, or not to apply, for a patent application and are free to conclude any agreements with third parties with respect to his or her invention. However, since 2002, professors and university researchers have to notify the university of their inventions, and universities can claim the ownership of inventions created at universities. The underlying reason for such a change is that it would facilitate converting scientific knowledge into commercial innovations with social and economic benefits.⁹³ The legal framework concerning the ownership of inventions created under public-funded research, however, varies in different countries. Issues concerning public-private partnerships are further dealt with in Chapter VIII.

116. Similarly, the right in a patent where a student created an invention during the course of activities at a university or school is not always clearly defined, since the legal provision concerning an employee researcher's invention is not applicable to a student's invention.

117. Where a patent is owned jointly, national laws relating to rights and obligations of joint owners vary. For example, in the United States of America, joint owners may license a co-owned patent without the other party's consent unless there is an agreement to the contrary. On the other hand, Japanese law requires consent of the other joint owner to license the co-owned patent. This means that in the case of joint R&D, parties need to consider carefully, in advance, their needs to license future intellectual property to third parties and how different national laws may affect such needs.

118. The question of entitlement may not be easy to answer, in particular, where an invention is created jointly. It is generally considered that negotiations on the terms and conditions of future intellectual property ownership derived from joint R&D can be extremely lengthy and costly.⁹⁴ However, it has also been observed that when positions over ownership of a potentially valuable right are entrenched due to a lack of clear agreement by the parties, the time for and cost of resolving those positions can be considerable.⁹⁵ In particular, where parties to a joint R&D are from different countries or they plan to exploit future intellectual property in a number of countries, they may need to take fully into account the differences concerning ownership of patents in different jurisdictions. In addition, where a private company and a university wish to engage in a collaborative research project, due to the different priorities of the parties, questions of ownership and the right to use future intellectual property could be complicated.

⁹³ Third European Report on Science & Technology Indicators: Towards a Knowledge-Based Economy, European Commission, 2003.

⁹⁴ Lambert-Review of Business-University Collaboration, December 2003.

⁹⁵ John Hull, "Ownership of rights created in sponsored academic collaborations", E.I.P.R., Issue 1, 2007.

119. Further, since a patent may be assigned to another party, the patent owner may change over time. Recording such a change in a timely and accurate manner would allow third parties to trace the actual owner of patents, and consequently ensure access to the patent owner whose consent is essential to use the patented invention.

(ii) Claim drafting and interpretation

120. Ambiguity of the claims means ambiguity of the scope of patent protection. In connection with the transfer of technology, it would increase uncertainty regarding the value of the patented technology in question for both the patentee and the prospective licensee (or prospective buyer of the patent). Such uncertainty may increase transaction costs for the negotiation and potential costs for judicial procedures to clarify the scope of protection or to invalidate the patent. Similarly, ambiguous claims also increase uncertainty among third parties who wish to avoid infringement of a patent and to develop a technology that circumvents the patented claims.

121. Many national patent laws provide a requirement that claims shall be clear and concise. Since the claims define the scope of protection, they should be drafted in a manner that third parties clearly understand the scope of patent protection. Unreasonably complicating claims by including a high number of claims or complicated multiple dependent claims could result in ambiguity in respect of the scope of protection. Since such ambiguity creates legal uncertainty to enforce patents, it benefits neither the patentee nor third parties. National or regional practices regarding the acceptable drafting of claims and interpretation of claims differ from one jurisdiction to another. Those differences could lead to uncertainty about the scope of patent protection in different jurisdictions, unless a party is fully informed of all such differences.

(iii) Conditions of patentability

122. No patent law grants patents on every creation of our mind. The grant of exclusive patent rights is accorded only where the creation meets certain patentability criteria: most commonly, it must be patentable subject matter, be novel, involve an inventive step (non-obvious) and have industrial application (utility). Those requirements reflect the need to differentiate those creations that are considered to serve the public interest through the grant of exclusive patent rights and other creations for which a grant of patent rights would not serve the public interest. The public interest in this context is often referred to as the promotion of innovation and dissemination and transfer of technology for the benefit of society as a whole.

123. Where should the dividing line be struck in order to maximize the public interest? The differences among national/regional patent laws and interpretation of those laws suggest that policy makers have given different answers to this question. Indeed, current international treaties provide a wide range of flexibilities under the applicable national/regional patent law in applying the conditions of patentability and other requirements.

124. Looking at patents from the angle of tradable property, a higher presumption by the public of the validity of patents would increase the confidence of the market, and decrease costs associated with the licensing and assignment of patents. In order to ensure legal certainty, while it is important to find optimal conditions for granting patents, it may be equally important to make sure that those conditions are clearly understood by all stakeholders and are consistently applied in practice.

B. DISSEMINATION OF TECHNOLOGICAL ~~INFORMATION~~ AND PUBLICATION OF LEGAL STATUS

125. The patent system provides, on the one hand, an exclusive right that prevents others from using a patented invention without the consent of a patentee. At the same time, the patentee is obliged to disclose the invention to the public in a clear and complete manner. In addition to the full description of the technology concerned, published patents and applications also disclose the scope of protection (boundary of the right), the owners of the right, information concerning any associated rights (e.g., licenses) and other information relating to the legal status of the patents and patent applications. Such a transparent mechanism embedded in the patent system facilitates the transfer of technology by, for example:

- supporting the assimilation of the existing technological knowledge described in patents and patent applications, and stimulating new ideas and inventions;⁹⁶
- assisting the development of inventions and the commercialization of products by finding potential partners;
- assisting the acquisition of technology through the transfer of patent rights, and mergers and acquisitions.

126. Combining the technical information and legal information disclosed in patents, third parties can identify the public domain technology which can be used freely by anyone. As an example, where an invention has been publicly disclosed in a patent application in country X and a patent has not been sought for the same invention in country Y, anyone can learn about the invention disclosed in the patent application and can freely use that invention in country Y.⁹⁷

127. While better access to technological information and legal status information may be supportive in learning about the relevant technology from others and finding opportunities for using the technology disclosed through the patent system, better access to patent information is not a synonym for better access to technology as such. As one author suggests, it is another “derivative” way of benefiting from the patent system.⁹⁸

(i) Enabling disclosure requirement

128. The enabling disclosure requirement is fundamental to the effective dissemination of technological knowledge. Many technologies are cumulative. The state of art technology described in prior patent applications and patents provides a useful background for further improving existing technology. It can also provide clues on how to solve particular technical problems faced in different fields. In order for patent documents to be a useful source of technological information, at the outset, the technology should be described in such a manner that

⁹⁶ “Patent-based technology analysis report – alternative energy technology”, a detailed patent-based analysis regarding alternative energy technologies, explores the possibilities of patent information in identifying and analyzing existing and future technologies and the usefulness of patent information in a wider policy discussion
[\[http://www.wipo.int/patentscope/en/technology_focus/alternative_energy.html/\]](http://www.wipo.int/patentscope/en/technology_focus/alternative_energy.html/)

⁹⁷ To reach this conclusion, there is an assumption that the exploitation of the invention concerned does not infringe another patent or any other rights in force in country Y, and that the prior publication of the invention in country X defeats the novelty of the same invention in country Y.

⁹⁸ Cynthia Cannady “Access to climate change technology by developing countries: a practical strategy”, Issue Paper No. 25, ICTSD’s Programme on IPRs and Sustainable Development, International Center for Trade and Sustainable Development (ICTSD), 2009.

at least a person skilled in the art could grasp a practical sense of what is contained in the patent document.

129. As a trade-off to exclusive patent rights, all patent law requires applicants to disclose the invention to the public. In many countries, in order to obtain a patent, an applicant has to disclose the invention in a manner sufficiently clear and complete for the invention to be carried out by a person skilled in the art. Since such a requirement is found in Article 29.1 of the TRIPS Agreement, the provisions in national patent laws regarding the enabling disclosure requirement are similar in many countries. The interpretation of the national provisions, however, is more nuanced. The term “a person skilled in the art” may be interpreted differently in different countries. Another difficult question is the extent of disclosure of the invention that can be considered “sufficient and complete” to “carry out the invention”. Further, since the technology evolves over time, there could be a case where the description of the invention was not “sufficient and complete” at the time of filing the application, but has become “sufficient and complete” at the time the patent is granted, due to the fact that, in the meantime, “a person skilled in the art” has a better understanding of the relevant technology. In such a case, could the enabling disclosure requirement be considered as having been met?

130. Article 29.1 of the TRIPS Agreement allows Members to require that the applicant indicate the best mode for carrying out the invention known to the inventor at the filing date, or where priority is claimed, at the priority date, of the application. Consequently, some countries provide such a requirement in their respective national laws. Others do not require an indication of the best mode, but require that any mode for carrying out the invention be described in the description.

131. In the field of biotechnological inventions, in many countries, where an application refers to biologically reproducible material which cannot be sufficiently disclosed in a written application, the enabling disclosure requirement is considered to be complied with by the deposit of such material, to the extent that the disclosure requirement cannot be complied with. Unlike other inventions whereby a person skilled in the art may be able to analyze the claimed invention based on the text of the description and the drawings contained in a patent application, certain biotechnological inventions require physical access to the biological material in order for a person skilled in the art to understand the invention to the extent that he or she could carry out the invention. Therefore, it is important to ensure the availability of such access for third parties. Differences, however, are found in the formal and substantive requirements regarding such a filing under national/regional patent laws.

132. In order to enforce the enabling disclosure requirement, like any other requirement under the patent system, there needs to be appropriate checking mechanisms (by patent examiners, through third party scrutiny and/or opposition/revocation of patents etc.). The exact mechanisms introduced under national patent systems are different from one country to another, depending on the particular situation of each country. For many countries, financial and human resources for setting up such mechanisms and maintaining a high quality of review is a real challenge.

C. LICENSING OF TECHNOLOGY

133. The exclusive patent right allows a patentee to prevent others from using the patented invention without his or her consent. At the same time, the exclusive right is designed in such a way that a patentee can license the patented invention to others under conditions agreed to by both parties for their mutual benefit. As described earlier, patent licensing is one of the major channels for promoting technology transfer to, and the further development of technology by, licensees.

(i) Voluntary patent licenses

134. Patent licensing plays an important role in creating income for the patentee, promoting dissemination and further development of technologies by a wider group of licensees, and thereby facilitating the commercialization of innovative products. Since the business needs of a licensor and a licensee may be different in each case, every patent licensing agreement is unique. Typically, a licensing agreement contains, among others, the subject matter of the licensing agreement, the extent of rights licensed, terms and conditions, obligations of the licensor and the licensee, representations and warranties and clauses concerning disputes, expiration and termination of the agreement and applicable law. A license may be an exclusive license, a sole license or a non-exclusive license. An exclusive license guarantees that the licensee will be the only party who exploits the patent under the terms and conditions stipulated in the agreement (even the licensor will not exploit the patent). A sole license guarantees the licensee that the licensor will not grant any license to other parties within the contractual territory. Under a non-exclusive license, the licensor retains the right to grant another non-exclusive license to other parties.

135. Some countries require registration of technology licensing contracts with the government in order to monitor such transactions and to facilitate the development of national technology transfer policy. [One country reported its positive experience in requiring the national patent authorities to review all intellectual property contracts in order to protect the local recipients of technology against possible abuses of provisions in the contracts, and clarified that no problem seemed to have been observed in the inflow of technology to that country.](#)⁹⁹ One scholar, however, noted that there is little evidence that extensive government monitoring of technology licensing contracts, with associated requirements for the full disclosure of proprietary information to public agencies or other performance mandates, had positive impacts on the inward international transfer of technology or on productivity growth.¹⁰⁰ He observed that such mandates were likely to deter foreign firms from transferring their newer technologies to all but the largest or higher-income economies, and suggested vigilant control of anti-competitive abuses of licensing agreements rather than restricting licensing terms *ex-ante*.

136. Another element concerning licensing agreements that touches upon the transfer of technology is statutory rights and the obligations of licensors and licensees, including the rights and obligations of co-licensors. Questions such as to what extent licensees are protected from a change in ownership of the patent (change in the person of licensor) or from insolvency of the licensor are some of the issues relevant to the certainty of licensing agreements and the need for such agreements to be executed in a reliable manner.

137. In connection with licensing agreements relating to R&D collaboration, it is essential to identify clearly the scope of the joint activities, for instance their field, duration, objectives, milestones and deliverables. In particular, intellectual property, predominantly patents, arising from joint R&D activities, should be clearly defined in terms of ownership of future intellectual property created by the joint R&D and exploitation of such future intellectual property rights. Since expectations and goals of joint R&D may not be the same among participating parties, which party or parties have the right to exploit the future intellectual property under which terms and conditions needs to be agreed upon among the parties in advance.

⁹⁹ [Document SCP/14/10, paragraph 174.](#)

¹⁰⁰ Keith Maskus, "Encouraging international technology transfer", UNCTAD-ICTSD, Issue Paper No. 7, May 2004.

138. Further, it is often the case that participating parties bring their existing IP (background IP) and know-how to conduct the joint R&D. Clear demarcation of the background IP and any new IP created through the joint activities (foreground IP) needs to be made in order to avoid any future disputes over ownership of rights and extent of contribution to such rights. Similarly to any other contractual arrangements, some thought should be given to the ownership and exploitation of intellectual property in situations where joint R&D is terminated prematurely or the stated objectives or expected research goals are not fulfilled.

139. Where a product involves a number of patents owned by a number of different patentees, the cost of evaluating those patents and negotiating licensing agreements separately with each patentee can become extremely high. The term “patent thickets” generally describes a form of strategic patenting where densely overlapping patent rights are held by multiple patentees. When innovators have to negotiate with large number of patent owners, they may face excessive transaction costs. Thus, patent thickets have been criticized as unduly taxing and hindering innovation, competition and development.¹⁰¹

140. Since patent licensing is one of the major channels for promoting technology transfer and the further development of technology such high transaction costs to negotiate licensing agreements is perceived to hinder the transfer of technology between the relevant actors. These types of problems with thickets have been the subject of much concern by IP regulators, economists and IP users.¹⁰² Some researchers have suggested that, *inter alia*, lower patenting standards can encourage patent thickets. One of the remedies proposed to reduce transaction costs for negotiating multiple licenses is the so-called patent pool which is used, in particular, in information and communication technology.¹⁰³ This is one of the licensing arrangements that facilitate licensing agreements involving multiple parties. However, where a patent pool is formed among competitors in the market, competition concerns could arise depending on the arrangement made.¹⁰⁴ [One author points out the limitations of patent pools in solving problems of access to technology,¹⁰⁵ which include the following: \(i\) pool licenses may be open but not free of charge; \(ii\) pool licenses are often intended to clear IP hurdles between IP owners but not to deliver technology to non-owners; \(iii\) pool licenses do not eliminate the inequality in bargaining power;](#)

¹⁰¹ Helfer, Michael, A, “The Tragedy of Anticommons: Property in the Transition from Marx to Markets”, Harvard Law Review, 1998.

¹⁰² Heller, M.A, Eisenberg, R.S., “Can Patents Deter Innovation? The Anticommons in Biomedical Research”, Science 280, 1998, p 698-701; Carl Shapiro (2001), “Navigating the patent thicket”, at <http://faculty.haas.berkeley.edu/shapiro/thicket.pdf>; J Bessen (2003) Patent Thickets: Strategic Patenting of Complex Technologie; “To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy,” Report by the US Federal Trade Commission, October 2003, 6, 8; Bronwyn, Hall, Exploring the Patent Explosion, Stanford Seminar, 2004; Iwan von Wartburg, Martin Möhrle, Lothar Walter, Thorsten Teichert, Patents as resources, Proceedings of the IFSAM VIIIth World Congress 2006; Strategic Dimensions of Intellectual Property Rights in the context of Science and Technology Policy prepared by an independent ETAN Expert Working Group for the European Commission Directorate General XII, June 1999, <http://ec.europa.eu/research/era/pdf/ipr-expertgroupreport.pdf>.

¹⁰³ [Frank Grassler and Mary Ann Capria “Patent pooling: uncorking a technology transfer bottleneck and creating value in the biomedical research field”, J. COM. BIOTECHNOLOGY, vol.9, p.111, 2003.](#) Patent pools in connection with technical standards are described in document SCP/13/2, pages 32 to 37. The description contained in that document of, for example, competition concerns, is also relevant in the present general context.

¹⁰⁴ [Ted Sabety “Nanotechnology innovation and the patent thicket: which IP policies promote growth?“, ALB. L. J. SCI.&TECH. vol.15, p.477, 2008.](#)

¹⁰⁵ [Cynthia Cannady “Access to climate change technology by developing countries: a practical strategy”, Issue Paper No. 25, ICTSD’s Programme on IPRs and Sustainable Development, International Center for Trade and Sustainable Development \(ICTSD\), 2009.](#)

[and \(iv\) pools may help IP owners to create a powerful patent portfolio.](#) In addition, one research paper suggests that, as strong patent portfolios yield substantial benefits to its holder, profit-maximizing firms will continue to accumulate related patents and ignore the costs that their actions impose on other innovators. The paper therefore concludes that the problem of patent thickets is unlikely to go away.¹⁰⁶

141. As stated earlier, collaboration and technology transfer have become increasingly important pathways to innovation. Patents play an important role in supporting the technology markets, and undermining that role could harm innovation. However, a number of business models in markets for patents that may not involve any transfer of technology have emerged in recent years. In these markets, patents are bought, sold and licensed as assets whose value is based on their ability to extract rents from manufacturers already using the patented technology. This happens because not all patent licensing and sales occur *ex ante* as part of the technology transfer agreement, that is, before the purchaser has invested in creating, developing or commercializing the patented technology. It may happen that the manufacturer already uses the patented technology when approached by the patentee, but does not have the license to such use, necessitating the negotiation of an *ex post* license to avoid infringement liability.

142. While the ability of patentees to assert their rights against infringers is considered as an important element in the patent system's role in promoting innovation and facilitating transfer of technology, it was argued that the *ex post* licensing to manufacturers that sell products developed or obtained independently from the patentee may distort competition in technology markets and deter innovation.¹⁰⁷ Being armed with the rights to exclude, a right holder may abuse those rights by demanding unreasonable royalties when a manufacturer had already been using the technology without knowledge of the later asserted patent. This in particular could happen if the manufacturer had already sunk costs into using the technology, which the patentee could use as negotiation leverage for demanding a higher royalty than the actual value of the patented technology and threatening litigation in case no agreement is reached.¹⁰⁸ In addition, the failure of the manufacturer to obtain a license *ex ante* may result in duplicated R&D efforts.¹⁰⁹

143. In this context, increased concerns have been raised in relation to the activity of patent assertion entities, also known as "patent trolls". While various definitions of the term exist, in general, it has been used in a pejorative sense to describe the business model of companies which acquire ownership of a patent without the intention of manufacturing or marketing the invention, but rather to sue entities they believe have already been using it without permission. Thus, as buyers of patents, these non-performing entities (NPEs) are primarily interested in the exclusionary right, and not necessarily in the underlying knowledge, development and technology transfer.¹¹⁰

144. Some authors, however, have claimed that there are some benefits resulting from this activity.¹¹¹ For example, supporters of the NPE business model argue that when they purchase

¹⁰⁶ R. Polk Wagner and Gideon Parchomovsky, "Patent Portfolios", University of Pennsylvania Law Review, Vol. 154, No1, 2005.

¹⁰⁷ The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition. A Report of the Federal Trade Commission, 2011.

¹⁰⁸ Tú Thanh Nguyen, "Competition Law, Technology Transfer and the TRIPS Agreement: Implications for Developing Countries", Edward Elgar Publishing, 2010, 21.

¹⁰⁹ The Evolving IP Marketplace: Aligning and Remedies with Competition. A Report of the Federal Trade Commission, 2011.

¹¹⁰ Timo Fischer, Joachim Henkel, "Patent Trolls on Markets for Technology – An Empirical Analysis of Trolls' Patent Acquisitions", Center for Economic Policy Research (CEPR), London, 2009.

¹¹¹ The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition. A Report of the Federal Trade Commission, 2011.

patents from independent inventors and small companies in order to assert them, NPEs provide the needed compensation and funding that inventors could not receive otherwise.¹¹² However, other authors suggest that even if it is correct that NPEs incentivize and fund the work of inventors, that activity is only the first step in a lengthy and expensive development process to bring the innovative product to the market. To the extent that patenting and *ex post* licensing increase the risk and expense of the development and commercialization process of others without providing new technology *ex ante*, that activity deters innovation.¹¹³

145. Understanding the effects of these transactions helps patent policy to adjust in order to better respond to potential failures by supporting the beneficial effects of patents, and lessen the detrimental ones. While it is difficult to distinguish beneficial patent transactions from detrimental ones, it is worth analyzing the conditions which the current patent systems might have created to induce the expansion of such business strategies. As a recent study indicates, these include, *inter alia*, poor patent quality, problems of insufficient patent disclosure and remedies that do not reflect the economic value of the patented technology.¹¹⁴ Existing research has examined the legal underpinnings of the NPE business model, provided some empirical evidence on related patent litigation, and illustrated the various strategies underlying this business.¹¹⁵ However, a systematic quantitative study of NPE activity is lacking due to data availability issues, and with it, an empirically based judgment about the strategies, technology fields, and sustainability of future such activity.¹¹⁶

(ii) License of rights

146. Many national patent laws provide a mechanism allowing a patentee voluntarily to file a statement with the patent Office that he or she is prepared to allow any person to use the invention as a non-exclusive licensee. Such a statement will be published in the official gazette, and the patentee typically enjoys a reduction of the maintenance fee (around 50 per cent, depending on the applicable national law). Adequate remuneration should be agreed upon between the patentee and a party seeking a non-exclusive license. In the absence of such an agreement, the patent office or a court, depending on the applicable national law, would establish the adequate terms and licensing conditions. The patentee may withdraw such a statement under certain circumstances. For example, according to the law of the United Kingdom, the withdrawal of the statement is possible if there is no licensee with respect to the patent in question or all licensees agree to such withdrawal, and the exempted maintenance fee is paid. Some Offices provide a database that allows third parties to search patents with respect to which license of rights statements have been filed.

147. This mechanism aims to encourage the use of patents by third parties through voluntary agreements by giving a financial incentive to patentees. Use of such a mechanism, however, is not high.¹¹⁷ One of the reasons could be that, where the patent relates to the core business of the patentee, even if that patent has not been used by the patentee so far, limiting the patent right to

¹¹² Detkin, Peter N., "Leveling the Patent Playing Field", 6 J. Marshall Rev. Intell. Prop. L. 636, 2007, 636.

¹¹³ Johnson, John; Leonard, Gregory K.; Meyer, Christine and Serwin, Ken, "Don't Feed The Trolls?", 42 Les Nouvelles, 2007.

¹¹⁴ The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition. A Report of the Federal Trade Commission, 2011, 72.

¹¹⁵ Timo Fischer, Joachim Henkel, "Patent Trolls on Markets for Technology – An Empirical Analysis of Trolls' Patent Acquisitions", Center for Economic Policy Research (CEPR), London, 2009.

¹¹⁶ Timo Fischer and Joachim Henkel, 2009, *ibid*.

¹¹⁷ According to the [Facts and Figures 2009-2010](#) ~~Annual Review 2007~~, published by the United Kingdom Intellectual Property Office (UKIPO), [2,591,597](#) statements were filed with UKIPO in 2009 ~~7~~ [and 1,060 statements in 2010](#).

monetary remuneration and giving away the possibility of injunctive relief could considerably weaken the position of the patentee vis-à-vis his or her competitors. For example, even if the patent in question has not been used by the patentee, that patent could be used for the negotiation and conclusion of a cross-licensing agreement with a third party. Where the third party is aware that the patent is subject to a license of rights, the negotiating position of the patentee would be considerably weakened.

148. On the one hand, for patentees who are primarily interested in royalty revenue, e.g., research institutions and universities, or who have clearly no intention of manufacturing the patented invention by themselves, a license of rights may be an attractive option to consider, since it would increase the visibility of their intentions to license, and at the same time, reduce the maintenance cost of patents.

D. SAFEGUARDING THE INTERESTS OF TECHNOLOGY USERS

149. In any patent system, with a view to contributing to the promotion of technological innovation and to the transfer and dissemination of technology, finding the right balance between producers and users of technological knowledge is considered fundamental. Since patents confer exclusive rights on patentees, national patent laws carefully exclude certain subject matter from patent protection and set a limit to exclusive patent rights in certain cases which otherwise would be considered as infringing a patent. This allows technology users to use inventions that fall under certain subject matter, or to use patented inventions in a certain manner or for a specific purpose, without fear of infringing a patent. In addition, measures have been taken in national laws, both within and outside the patent system, to prevent the abuse or misuse of exclusive patent rights that would impede, rather than promote, the dissemination and transfer of technology. The need to embrace the mutual advantage of producers and users of technological knowledge in a manner beneficial to social and economic welfare and to take appropriate measures to prevent the abuse or practices that adversely affect the international transfer of technology is widely acknowledged at the international level.¹¹⁸

(i) Exclusions from patentable subject matter¹¹⁹

150. In general, fundamental principles, such as laws of nature, mathematical and scientific theories, and schemes and rules for performing pure mental acts, are regarded as not patentable. Granting the exclusive patent right to such fundamental knowledge is generally considered as not supporting the promotion of innovation and dissemination and the transfer of technology in society at large, since the detrimental effect of the exclusive rights that prevent others from using those fundamental principles is considered so critical.

151. The current international framework provides flexibilities as to the exclusion of certain technology from patentable subject matter. For example, many countries exclude plants, animals or computer programs from patentable subject matter. Different views have been expressed regarding the question as to whether patent protection is supportive of the transfer of certain

¹¹⁸ In particular, Articles 7 and 8 of the TRIPS Agreement.

¹¹⁹ Document SCP/13/3 provides general information regarding exclusions from patentable subject matter. See also document SCP/15/3, "Experts' study on exclusions from patentable subject matter and exceptions and limitations to the rights" to be found at: http://www.wipo.int/edocs/mdocs/scp/en/scp_15/scp_15_3-annex1.doc.

technology.¹²⁰ Therefore, it appears that no conclusion can be drawn with respect to the effect of excluding certain technology from patent protection to the transfer of such technology.

152. In the biomedical field, in particular, concerns have been raised that the patenting of upstream research results, such as research tools, may stifle downstream life-saving innovation and product development.¹²¹

(ii) Exceptions and limitations¹²²

153. Certain exceptions and limitations to the rights seem to be more closely related to the issue of technology transfer. One of those exceptions is the so-called experimental use exception or research exemption. In general, the research exemption enables researchers to examine the stated effects of patented inventions and improve such patented inventions without fear of infringing the patent.¹²³ As described earlier, it is well known that the capacity to absorb and adapt technology is one of the cornerstones of the successful transfer of technology, and that such a capacity could be strengthened through “learning by doing”. The research exemption may provide a greater possibility of using the reservoir of existing knowledge without any fear of infringement of patents.

154. A large number of countries have, in their national legislation, provisions that allow the government and/or third parties, under certain circumstances and conditions, to use a patented invention without the authorization of the right holder. In general, those so-called compulsory license provisions are considered as an instrument to prevent abuses of the exclusivity inherent in the patent rights or to deal with national emergencies and other circumstances of extreme urgency. They are also considered as tools to ensure that the patent system contributes to the promotion of innovation in a competitive environment and to the dissemination and transfer of technology, meeting the objectives of the system and responding to the public interest at large. Consequently, various conditions and grounds found in national laws aim to balance the interests of various stakeholders including the right holder, their competitors and the public at large.¹²⁴ International legal instruments, such as the Paris Convention, the TRIPS Agreement, the Doha Declaration on the TRIPS Agreement and Public Health and the Decision on Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health, allow countries to issue compulsory licenses under certain conditions aimed at safeguarding the legitimate interests of the patent holder and third parties.

155. The effectiveness of compulsory licenses as a tool for the transfer of technology has been widely debated. Some note that, since the transfer of know-how not disclosed in a patent application can only be made by concluding voluntary licenses or through reverse engineering, compulsory licenses may be most effective when the technology is already known and only access

¹²⁰ For example, there have been extensive debates on whether, and to what extent, software-implemented inventions or business methods should be patented, and what are the costs and benefits of such patenting with respect to transfer of knowledge relating to software/business methods.

¹²¹ Heller, M.A, Eisenberg, R.S., “Can Patents Deter Innovation? The Anticommons in Biomedical Research”, *Science* 280, 1998, p 698-701.

¹²² Document SCP/13/3 provides general information regarding exceptions and limitations to the rights. See also document SCP/15/3, *ibid*.

¹²³ Further information concerning the research exemption can be found in document SCP/13/3. See also document SCP/15/3, *ibid*.

¹²⁴ Further information concerning compulsory licenses can be found in documents SCP/13/3 and SCP/15/3, *ibid*.

to it is required.¹²⁵ One scholar notes that associated costs, political pressure and the non-exclusive nature of licenses are factors that may discourage the use of compulsory licenses as a means of acquiring technology.¹²⁶ While the question as to whether compulsory licenses necessarily or automatically discourage any particular investment in R&D may require further investigation, presumably beneficial uses of compulsory licenses (such as selected uses of compulsory licenses to address emergencies or to remove specific technology supply bottlenecks) impose social costs of their own.¹²⁷ In that light, some scholars suggest that compulsory licenses be viewed as one item of an arsenal of tools that may be used to promote coherent and effective national systems of innovation.⁵⁵¹²⁸

(iii) Parallel imports

156. Under the current legal framework, as stipulated in Article 6 of the TRIPS Agreement and the Doha Declaration on TRIPS and Public Health, countries are free to provide their own rules regarding the exhaustion of intellectual property rights. The exhaustion of patent rights occurs once a patentee, or any other person with the consent of the patentee, puts a product protected by a patent on the market. With respect to that product, the patentee, or any other person who puts the product on the market with the patentee's consent, would no longer be able to enforce his or her patent rights. That is, the rights to prohibit others from using a patented product without the patentee's consent are "exhausted" when the patentee puts the product on the market for circulation or when it is put on the market with his or her permission. Depending on the territorial limitation on the market with respect to which the exhaustion occurs, three types of exhaustion mechanisms exist, i.e., national exhaustion, regional exhaustion and international exhaustion. According to the principle of national exhaustion, the patent right is exhausted only where a patented product is put on the domestic market. In other words, if a patented product is put on the foreign market, the domestic patent right with respect to that product has not been exhausted, and therefore, the patentee may prevent the import of such a product put on the foreign market.

157. However, under regional or international exhaustion, the patent right is exhausted where a patented product is put on the regional market or put on any market internationally. In other words, if a patented product is put on that regional market or on any market in foreign countries, the domestic patent right with respect to that product is exhausted, and therefore, the patentee cannot prevent the import of such a product put on the regional or foreign market. Under such mechanisms, since the market price of the same product may be different from one country to the other, a third party may acquire a product from the foreign market at a lower price, and resell that product domestically outside the normal distribution channel of the patentee and the authorized importer/seller (parallel imports). A parallel importer usually exploits the difference in the purchasing price on the foreign market and the selling price on the domestic market.

¹²⁵ For example, Jayashree Watal, "Intellectual property rights in the WTO and developing countries", 2001.

¹²⁶ Carlos Correa, "Can the TRIPS Agreement foster technology transfer to developing countries?" in *Keith Maskus and Jerome Reichman (ed.), International Public Goods and Transfer of Technology Under a Globalized Intellectual Property Regime*.

¹²⁷ Jerome Reichman, Catherine Hasenzahl, "Non-voluntary licensing of patented inventions", UNCTAD-ICTSD, Issue paper No. 5, 2003.

¹²⁸ *Ibid.*

158. On the one hand, the wide availability of parallel imported products in the domestic market, which are generally cheaper than products distributed through the normal distribution channel of the patentee and his or her authorized dealers, may increase the possibility for third parties to reverse engineer the technology. On the other hand, wide availability of parallel imported products may discourage foreign right holders from investing in the domestic market, since the parallel importer could free ride on the investments made by authorized distributors. The impact of parallel imports on innovation and investment is theoretically ambiguous, while some studies suggest that it may depend on the relevance of IPRs to the market power, size of the domestic market, the risk of re-export of parallel imported goods and the reasons for differential pricing.¹²⁹ In short, no clear evidence has been found with respect to parallel imports and the transfer of technology.

(iv) Competition law

159. Patent laws and competition laws are complementary in the sense that patent laws aim to prevent the copying or imitation of patented goods and contribute to fair market behavior, while competition laws may limit patent rights in that patent holders may be prevented from abusing their rights. A balance has thus to be found between competition policy and patent rights, and this balance must achieve the goal of preventing abuses of patent rights, without annulling the reward provided by the patent system when patent rights are used appropriately. Even if a patent allows a patentee to obtain a monopoly position, in principle, acquiring a monopoly position by lawful means does not constitute a violation of a competition law. However, if competition is distorted by the abusive behavior of a patentee dominating a market or by anti-competitive practices that tend to lead to such a dominant position, competition law would be applied to restore fair competition in the market.

160. Patent licensing agreements have competitive elements in the sense that they promote the efficient transfer of technology by integrating a licensed technology to the licensee's complementary assets. Under general principles applicable to contracts, parties are free to determine the contents of contracts, and may derogate by mutual consent from the provisions relating to license contracts as long as they are not barred by law. Certain limitations in licensing agreements, such as territorial limitations or limitations as to the field of use, may be pro-competitive under certain circumstances, since such limitations may allow both the licensor and the licensee to exploit the patented technology as efficiently and effectively as possible. However, a competition law concern may arise if a licensing agreement contains restraints that adversely affect competition among entities that would have been competitors in the relevant market in the absence of the license. For example, if a licensing agreement that divides a market between competitors who would otherwise have competed with each other adversely affects competition, it may be contrary to competition law requirements.

161. As stated in Article 40.1 of the TRIPS Agreement, it is generally recognized that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology. Consequently, Article 40.2 allows WTO Members to specify, in their national legislation, licensing practices or conditions that may in specific cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. Examples of such anti-competitive practices include: exclusive grant back conditions, preventing challenges to validity and coercive package licensing. Therefore, licensing clauses that oblige the licensee to transfer to the licensor any rights associated with the improvement of the licensed patent, oblige the licensee to purchase the licensor's other technologies that the licensee does not need or oblige the licensee to purchase

¹²⁹ Rod Falvey and Neil Foster, "The role of intellectual property rights in technology transfer and economic growth: theory and evidence", UNIDO Working Papers, 2006.

materials only from the licensor or any particular source, may risk accusations of anti-competitive practices, which would be assessed on a case-by-case basis by a national authority.

E. SUPPORTIVE ENVIRONMENT IN THE PATENT SYSTEM

162. In order truly to empower the patent system as a tool for the efficient and effective transfer of technology, it has to be viewed in a broader context. While patent law provides the above various elements that together comprise the framework which supports the dissemination and transfer of technology, other features also support the patent system so that it works as intended. To name but a few, higher predictability in terms of the validity of the granted patents, high quality services offered by IP professionals and financial accessibility to the patent system all support the transfer of technology.

(i) Role of IP professionals and patent quality

163. The role of patent attorneys is, in general, to give advice and assist inventors and applicants in obtaining and maintaining patents, to give advice to third parties on the relevance of existing patents to their business activities and to assist third parties during opposition and invalidation proceedings. They should be able to provide a full range of possible protection or enforcement options available to the client and assist the client if a patent is erroneously granted or an abuse of right is found. Also, with a view to increasing integration of IP into the business model of firms, the role of patent attorneys in assisting in the IP management of his or her client appears to be increasingly important.

164. Qualified patent attorneys and patent agents are in a position to understand the technology concerned and to analyze the scope and value of the patented technology. Because of such capability, together with their understanding of IP law, patent attorneys can be an important interface between the transferor and transferee of the technology in the technology transfer process.

165. Although qualified patent attorneys would support patentees and third parties in finding mutually agreeable terms and conditions, at the outset, if the validity of granted patents is not credible, this would raise the costs for both patentees and third parties of concluding licensing agreements. Re-evaluation of the validity of a sub-standard patent (a patent for claimed inventions which do not meet patentability requirements), negotiations on such a sub-standard patent and taking any legal action, if necessary, to revoke totally or in part such a patent would require additional time, human and financial resources that could have been spent elsewhere.

166. A number of issues in the patent system that are considered relevant to transfer of technology relate to the validity of patents. In those countries where substantive examination is conducted by patent offices, the validity of patents is controlled primarily by patent examiners at the pre-grant stage, and by quasi-judicial and judicial authorities at the post-grant stage. In those countries where patents are granted after formality examination, the validity of patents is normally controlled by judicial authorities in the post-grant stage. In order to ensure a high level of validity of granted patents, a high capacity of the authorities involved in controlling the quality of patents, and more specifically, patent examiners and judges, are an integral part of the supportive environment of the patent system.

167. Further, many intellectual property authorities provide patent information tools and institutional services (see Chapter IX) with a view to empower, in particular, local inventors and SMEs and support transfer of technology to them. Also, there are a number of associations that assist their members in improving skills and techniques relating to licensing and transfer of

technology. The Licensing Executives Society International (LESI) is one such international non-governmental organization.¹³⁰

F. FLEXIBILITIES IN PATENT LAWS

168. Those elements in the patent system that could have implications for an effective transfer of technology have been discussed in previous sub-chapters in detail. International treaties leave certain flexibilities for national/regional authorities to formulate these elements in their applicable laws in accordance with their needs and policies. How could patent law flexibilities be exploited to promote transfer of technology? Since the elements that have been discussed, such as ownership, claim drafting and interpretation, conditions of patentability, disclosure requirements, exceptions and limitations, are fundamental pillars that support the patent system, the above question is essentially looking at the optimal designing of the patent law in each country or region. Since patent law flexibilities in the area of, for example, exclusions from patentable subject matter and exceptions and limitations to patent rights are also utilized to manage the various interests of different stakeholders involved in technology transfer, constraints for countries to implement the flexibilities available under the patent system are considered problematic by some experts.¹³¹

169. An important caveat in this question is that the designing of a patent system should strive for both the optimal promotion of innovation and the optimal dissemination and transfer of technology; both of them should work in tandem and in a sustainable manner. Without innovation, there will be no transfer of technology. At the same time, the encouragement of innovation alone may not ensure the effective transfer of technology. Taking into account the conclusions of some scholars stressing the importance of absorptive capacity and the capacity to apply the transferred knowledge in the local context to promote transfer of technology, from a policy perspective, the promotion of innovation and transfer of technology are complementary and probably inseparable.

170. Since the patent system does not exist in a vacuum, no one answer can be given for designing an optimal system. However, existing studies appear to highlight certain areas of concern, which are reflected in Chapter V(C). In the context of the optimal use of the patent law flexibilities, perhaps we should be asking specific questions that go to the core of patent law, even if it is difficult to calibrate the exact relevance of those questions to technology transfer.¹³²

VIII. PUBLIC-PRIVATE PARTNERSHIPS

171. Among the various partnerships and networks that we have witnessed in the past, a considerable part consists of inter-firm relationships, but collaborative innovation networks are gaining popularity among players from the private sector and government-funded agencies

¹³⁰ While most of LESI's materials are limited to members only, "Recommended Resources For Licensing Professionals" by John T. Ramsay, Q.C., available on the LESI's website, is a list of resources selected by the Recommended Resources Subcommittee of the Licensing Executives Society (USA and Canada), Inc., Education Committee. Although it is US/Canada centric, as the author admits in the paper, it covers a wide range of issues regarding licensing [http://www.lesi.org/publicfiles/Recommended_Resources_For_Licensing_Professionals.pdf].

¹³¹ See paragraph 108.

¹³² Those specific questions may include: Who owns the right to patents? Is the right clear under different circumstances and traceable throughout the life of the patent? Is the scope of the patent right always clearly defined by the claims? If not, how to improve the clarity? How to increase the validity of patents? How can the patent system promote licensing agreements? What are the limitations to the exclusive rights that reduce transaction costs and at the same time do not compromise the level of innovation incentives offered by the patent system?

(so-called public-private partnerships). To a certain extent, almost all these collaboration models rely on patent strategies and contain provisions on the management and use of patent rights.

172. Simply stated, the process of creation and development of products involves three stages: (i) a research phase that forms the basis of the creation of the new product; (ii) a development phase that involves the transformation of research results into a concrete new product; and (iii) a marketing phase that involves all aspects relating to the distribution of the new product. Many private companies are successfully committed to the above three stages, i.e., from the R&D to the commercialization and dissemination of products. On the other hand, it has been widely recognized that, in many countries, a substantive amount of R&D, particularly basic research, is financed by the government and conducted by public research institutions including universities, while the commercialization of new products is essentially conducted by the private sector. Furthermore, as the technology becomes increasingly complex, the private sector is seeking collaboration with public sector research institutions that possess a high level of research expertise.

173. Generally speaking, there used to be a clear division between the activities of firms and those of the academic sector. The academic sector, including the public research institutions, previously concentrated more on the basic science. However, there has been an erosion of the division between basic science and applied science, in particular, in the field of biotechnology where basic science, such as genomics, is perceived as having potentially significant commercial value.¹³³ From the financial viewpoint of the public sector, at a time when public financial resources are scarce, collaboration with the private sector would ensure additional financial support for public research activities.

174. Despite the above collaboration needs, it was generally perceived that universities and public research institutions were not able sufficiently to convert the results of their research into viable products, mainly because of the absence of sufficient cooperation with the private sector. Consequently, policy makers have started to explore a better interface between the public sector and the private sector with a view to accelerating the innovation and commercialization of public-funded research results. The needs of bridging these two sectors may be higher in countries where advanced research capacities are concentrated in the public sector. According to a report issued by the European Commission, in Europe, universities and higher education establishments employ 34 per cent of the total number of researchers and are responsible for 80 per cent of the fundamental research carried out in that region.¹³⁴ Another source indicates that the government funds 67.5 per cent, 62.6 per cent and 38.2 per cent of the national research expenditure in Argentina, the Russian Federation and South Africa, respectively.¹³⁵

175. Without doubt, through their primary mission of delivering higher education and basic research, universities and public research institutions have been playing an important role in disseminating and transferring their research results through, e.g., publications, conferences and educating future researchers who would be employed by the private sector. However, in order to narrow the gap between the public research sector and the private sector, more direct dissemination and transfer of knowledge, such as collaborative research, licensing and creation of

¹³³ Commission on Intellectual Property Rights "Integrating Intellectual Property Rights and Development Policy".

¹³⁴ The Role of the Universities in the Europe of Knowledge (COM(2003) 58 final). However, the total number of researchers employed in universities and higher education establishments varies significantly among EU Member States (26 per cent in Germany, 55 per cent in Spain and over 70 per cent in Greece).

¹³⁵ OECD Main Science and Technology Indicators (MSTI): 2009/1 edition.

spin-off companies, has received wider attention. Consequently, the role of patents in accelerating the innovation and commercialization of public funded research results has been closely examined.

176. For a long time, as regards inventions created by public institutions, patent rights belonged to the State or professors themselves in many countries. Therefore, the public institutions could not take any decisions regarding the assignment or licensing of inventions created in the course of their research activities. Typically, State-owned patents, if any, were rarely exploited. As one of the intended functions of a patent system is to provide incentives for R&D, it was considered that allowing universities and public research institutions to claim ownership of intellectual property on their research results would offer more incentives for them to create new inventions. Further, it was also expected that any possibility of exploiting its intellectual property would motivate the public sector to seek licensees, possibly private companies, who may further develop its patented research results to a commercialized product. From the viewpoint of the private sector, it was argued that since public research activities were often basic research, private sector companies needed substantial investment, with a risk of failure, to develop further the early stage basic research into a new product and put it on the market. A possible motivation for the private sector to take such risks would be to ensure that a legal mechanism provides the possibilities for a company to have control over the developed technology, e.g., by way of an exclusive license or ownership of patents.

177. On the other hand, the mission of universities is widely considered as education, research and dissemination of research results for the benefit of humankind. To that end, freedom of research and publication are considered cornerstones of academic activities. There has been a fear that pursuing licensing activities with commercial partners might negatively affect the freedom of research and the fundamental mission of universities.

178. Taking into account the various interests involved, it appears that the policy choices of many governments are to allow universities and public research institutions to claim ownership of intellectual property based on public-funded research with the aim of maximizing the public benefits of such research. Consequently, universities and public research institutions can, to a large extent, set up IP and licensing policies, and decide on the distribution of royalty incomes among the stakeholders. One of the first countries that established a legal framework to implement such a policy was the United States of America: the so-called Bayh-Dole Act of 1980 allowed and encouraged research institutions in the United States of America to patent technology developed with federal funding, and to license that technology in return for royalties. In principle, non-profit organizations, including universities, and small businesses may retain the title to inventions made under the funding agreement with a federal agency, subject to the fulfillment of a number of obligations in order to meet the principal objective of promoting the utilization of inventions arising from federally-supported research.¹³⁶

179. The Bayh-Dole Act triggered a substantial increase in patenting activities in US universities and has been at the heart of the establishment of technology transfer offices in many US research institutions. This has resulted in a substantial growth in licensing revenues in those universities and research institutions and in the number of spin-off companies therefrom. However, it may also be important to note that the vast majority of institutions earn relatively little income from licensing fees, while a relatively small number of those institutions share the bigger part of total income. An extensive study examining university-industry technology transfer before and after the Bayh-Dole Act¹³⁷ found that the processes of knowledge exchange between a university and industry are

¹³⁶ 35 U.S.C., Chapter 18, §200-212.

¹³⁷ David C. Mowery et. al. "Ivory tower and industrial innovation: university-industry technology transfer before and after the Bayh-Dole Act in the United States", 2004.

multi-channeled and complex, and differ significantly among different fields of technology: US university patenting and licensing have been concentrated in the biomedical sciences. It concludes that the Act's emphasis on patenting and licensing as a critically important vehicle for the transfer to industry of academic inventions lacks a strong evidentiary foundation so far, and evidence on the role of patenting and licensing as indispensable components of technology transfer remains mixed. However, it also finds that the Bayh-Dole Act has simplified a complex administrative process to obtain intellectual property for inventions resulting from public-funded research, and has facilitated the entry into patenting of a number of institutions with little experience in managing patenting and licensing activities. It also suggests that patenting *per se* is less critical to an assessment of the Bayh-Dole Act's effects on public welfare than the types of licensing policies adopted by universities, although greater patenting of scientific, as opposed to technological, findings could be an issue of concern.

180. Following the enactment of the Bayh-Dole Act, many other countries have started to adopt policies and legal mechanisms for technology transfer from universities and public research institutions which are similar, although not identical, to the US policy and legislation. Not only developed countries, but also developing countries, have looked into areas such as the legal status of universities and public research institutions, simplifying administrative complexity to obtain intellectual property from those institutions, developing the intellectual property policy of those institutions, establishing technology transfer offices (TTOs) and reviewing funding and financial schemes for research activities carried out in those institutions.

181. The effects of such changes in other countries may require further evaluations due to the relatively recent introduction of those changes in those countries. It is well known that the cost of establishing and maintaining a TTO is not negligible. The experiences of China, India, Japan, the Philippines, the Republic of Korea, Singapore and Thailand are found in a number of studies that were commissioned in the framework of the WIPO project on "Development of University-Industry Partnerships for the Promotion of Innovation and Transfer of Technology".¹³⁸ Focusing on the Japanese experience, one study finds that, in addition to bigger companies, small and young businesses have started to use university collaboration R&D in the recent past, and suggests that it could be an indication of a change in the innovation system in Japan from in-house innovation to network-based innovation.¹³⁹

182. A study examining university patenting in Germany before and after the legal reform of abolishing professors' privilege shows a number of findings that are in common with the above US study.¹⁴⁰ It finds no evidence of systematic increase in the numbers of university-invented patents after the legal reform, but the ownership of those patents has shifted from individuals (professors) and firms to universities. It also observed that the legal reform provided inexperienced researchers with institutional support for better access to an improved transfer infrastructure. From a technology transfer perspective, the probability of successful commercialization might be higher for university ownership due to more patenting experience, more diverse industry contacts and more time investment of TTO staff. Nevertheless, the study concludes that the hope for revenues from commercialization as a new source of funding for universities could be misguided.

¹³⁸ <http://www.wipo.int/uipc/en/partnership>.

¹³⁹ Kazuyuki Motohashi, "Economic analysis of university-industry collaborations: the role of new technology based firms in Japanese national innovation reform", RIETI Discussion Paper Series 04-E-001, January 2004.

¹⁴⁰ Sidonia von Ledebur et. al. "University patenting in Germany before and after 2002: what role did the professors' privilege play?", Jena Economic Research Papers, #2009-068.

183. In order to facilitate collaboration between the public sector and the private sector, some countries provide standard model agreements, such as model research collaboration agreements and consortium agreements, for a variety of circumstances.¹⁴¹ In addition, although legal frameworks and policies underlining public private partnerships vary among Member States, the European Commission established voluntary guidelines for universities and other research institutions to improve links with industry across Europe.¹⁴² These aim to help research institutions develop more effective mechanisms and policies to promote both the dissemination and the use of public-funded R&D results and to facilitate the creation of a standard approach at European level. The complexity of different IP systems among countries in Europe was indeed recognized as a deterrent for cross-border collaboration between businesses and public research institutions by a European Expert Group.¹⁴³ The Group produced a Decision Guide and a Toolkit for private enterprises, public research institutions and intermediaries in order to support setting up cross-border collaboration.

184. It has been observed that the amount of knowledge and technology transferred from university to industry (and/or which is the result of collaboration between these two types of institutions) depends on: (i) the amount of knowledge generated within universities and public research institutions; (ii) the type of knowledge disclosure; (iii) the nature and type of their research; and (iv) the absorptive capacity and demand for new knowledge by companies.¹⁴⁴ Since public-private partnerships are one form of technology transfer from one party to another, intellectual property rights are relevant, but represent just one element for successfully transferring knowledge from the public sector to the private sector. Needless to say, in addition to the legal and institutional framework of the knowledge production system, the capacity of the business sector to absorb the research results and other enabling environments are essential for effective public-private partnerships.

185. The appropriate set of national policies to harness public sector R&D is considered to be highly context specific¹⁴⁵ and may depend on several factors such as (i) research capabilities and human capital; (ii) the legal and regulatory framework; (iii) the institutional setting of research institutions; (iv) access to finance and intermediary structures; and (v) firms' absorptive capacity.¹⁴⁶ The effective flow of government funds may depend on market dynamics and the way various stakeholders interact in the chain from research to commercialization. Although a national model for public-private partnership may vary from one country to the other, international

¹⁴¹ In the United Kingdom, a Lambert toolkit is available at:

http://www.dius.gov.uk/innovation/business_support/lambert_agreements. In Germany, a variety of model agreements, such as the "Berlin Contract", "Hamburg Contract" and "Munich Contract" exist.

¹⁴² Voluntary guidelines for universities and other research institutions to improve the links with industry across Europe, COM(2007) 182 final, European Commission.

¹⁴³ Report of the CREST OMC Expert Group on Intellectual Property (2nd Cycle), 2006
http://ec.europa.eu/invest-in-research/coordination/coordination01_en.htm.

¹⁴⁴ Fabio Montobbio, "Intellectual property rights and knowledge transfer from public research to industry in the US and Europe: Which lessons for innovation systems in developing countries?" in *The Economics of Intellectual Property*, WIPO Publication No. 1012.

¹⁴⁵ [Anthony So et. al."Is Bayh-Dole good for developing countries? Lessons from the US experience", PLoS Biology, Vol.6, Issue 10, October 2008](#)

¹⁴⁶ [Zuñiga, M. P. \(forthcoming\). The State of Patenting at Research Institutions in Developing Countries: Policy Approaches and Practices. Working Paper Series of the Economics and Statistics Division \(Background report to the World Intellectual Property Report 2011\). Geneva: World Intellectual Property Organization.](#)

experiences may provide examples of best practices in a specific context, and lessons gained through these experiences may be shared.¹⁴⁷

IX. TOOLS AND INSTITUTIONAL FRAMEWORK

186. In business circles, patent information is widely used in formulating a firm's IP strategy, as an input into research and development processes, to facilitate licensing and technology transactions, for technology transfer and for analysis of markets and competitors in order to support important business decisions. Further, the availability of information concerning ownership and rights and obligations associated with a patent (e.g., licensing agreements or security interest), which may be found in national patent registries, may support the transparency of the market and the legal certainty of transactions of so-called "intangible assets".

187. Although all information that is needed to analyze the technical contents of patents as well as the status of such patents (and patent applications) is held by patent offices, if such information is published on paper, in practical terms, it can be difficult to access, particularly from abroad. Digitization of national patent documents facilitates access to patent information as well as the statistical/analytical use of such information. Patent information is increasingly available via easily-accessible services that are delivered over the Internet. In addition, WIPO coordinates the Access to Research for Development and Innovation (aRD*i*) program together with its partners in the publishing industry with the aim of increasing the availability of scientific and technical information in developing countries.¹⁴⁸ Further, through the Access to Specialized Patent Information (ASPI) program, patent offices and academic and research institutions in developing countries can receive free or low-cost access to sophisticated tools and services for retrieving and analyzing patent data. The ASPI program was established through a public-private partnership between WIPO and some patent information providers.¹⁴⁹ In addition, within the framework of the Development Agenda, WIPO promotes the establishment and development of Technology and Innovation Support Centers (TISCs) in developing countries, which are designed to provide innovators in those countries with access to locally based, high quality technology information and other related services.¹⁵⁰

188. Various patent databases and the possibilities of patent landscaping are described in detail in document SCP/13/5, and therefore, are not repeated in this document. In addition, document SCP/14/3 provides further details on technical solutions to improve access to, and dissemination of, patent information. It may be sufficient to state simply that those digital tools play a significant role in the dissemination and transfer of technology. In some countries, with a view to disseminating information concerning the patents available for use without any need to obtain the consent of the patent holders, off-patent databases (databases of patents which have expired or withdrawn) are available on-line. An electronic registry which can be consulted on-line by third parties would serve the same purposes, and may allow them to consult the legal status of pending patent applications and patents.

¹⁴⁷ [Zuñiga, M. P. \(forthcoming\). The State of Patenting at Research Institutions in Developing Countries: Policy Approaches and Practices. Working Paper Series of the Economics and Statistics Division \(Background report to the World Intellectual Property Report 2011\). Geneva: World Intellectual Property Organization.](#)

¹⁴⁸ <http://www.wipo.int/ardi/en/>. Currently, 12 publishers provide access to over 50 journals for 107 developing countries through the aRD*i* program.

¹⁴⁹ <http://www.wipo.int/patentscope/en/programs/aspi/index.html>.

¹⁵⁰ <http://www.wipo.int/patentscope/en/programs/tisc/directory.html>.

189. Further, in order to promote licensing deals, a number of countries have set up tools that facilitate bringing potential buyers and potential sellers of technology together. The United States Patent and Trademark Office, e.g., publishes information concerning patents available for license and sale in its Official Gazette¹⁵¹ and the Intellectual Property Office of the United Kingdom provides a license of rights database. In addition, a number of national and regional authorities are active in promoting licensing by assisting market assessment and finding business partners. They also provide a user friendly platform on the Internet where potential buyers and sellers can identify each other.¹⁵² Generally speaking, such platforms provide a description of the technology offered/searched or a list of licensable patents and contact information. A number of commercial patent transaction businesses also exist, e.g., IP auction businesses.¹⁵³

190. In order to facilitate the sharing of knowledge and the adaptation, transfer and diffusion of technologies, WIPO has been developing platforms that build on partnerships and collaborations between technology holders and technology users. There are at present two such collaborative platforms developed or being developed by WIPO: WIPO Re:Search in the field of health and WIPO Green relating to environmental technology. WIPO Re:Search – *Sharing Innovation in the Fight Against Neglected Tropical Diseases*¹⁵⁴ was formed in 2011, and creates a partnership among WIPO, pharmaceutical companies, research and academic institutions and a non-governmental organization, BIO Ventures for Global Health. It provides access to intellectual property for pharmaceutical compounds, technologies, know-how and data available for research and development for neglected tropical diseases, tuberculosis and malaria.¹⁵⁵ WIPO Green is a technology marketplace that provides access to a broad range of environmental technology solutions. Its key objectives are the accelerated adaptation, adoption and deployment of environmental technologies particularly in developing countries and emerging economies. Technology holders will offer their technology on WIPO Green as a package, which may include associated know-how and services, and the terms of access to the technology for research, manufacture and/or sale will be governed by individually negotiated agreements.

191. Further, WIPO is developing a web-based patent data retrieval environment that provides access to patent information related to essential health-related technologies on a jurisdiction-by-jurisdiction basis with the working title “WIPO Essential”.¹⁵⁶

192. The institutional framework is also important for the effective transfer of technology. Technology and Innovation Support Centers (TISC), proposed in the context of the WIPO Development Agenda, not only provide patent information services, but also a wide range of innovation support services, including strengthening the local technological base by building up local know-how, coordinating the transfer of technology and skills, and sharing of know-how by investigating the possibilities of licensing, joint ventures, etc. As regards the transfer of universities’ research results to the commercial sector, TTOs in universities prosecute, license and manage intellectual property rights originating from universities. They often cover a wide range of tasks from evaluating invention disclosures and prosecuting patent applications to licensing the

¹⁵¹ <http://www.uspto.gov/web/patents/patog/week50/OG/TOC.htm#ref11>.

¹⁵² For example, a patent licensing database by Japan’s National Center for Industrial Property Information and Training (NCIPI) [<http://www.inpit.go.jp/english/index.html>], Innovation Relay Centres (IRCs) by the European Commission [<http://irc.cordis.lu>], the National Technology Transfer Center (NTTC) in the United States of America [<http://www.nttc.edu/default.asp>] and IP Market Place for Patents by the Danish Patent and Trademark Office [<http://www.dkpto.org/>].

¹⁵³ It was reported that a patent for a continuous play broadcast system was sold for US\$1.75 million at one of those auctions. [Managing Intellectual Property Weekly News, October 26, 2007].

¹⁵⁴ <http://www.wiporesearch.org>.

¹⁵⁵ See document SCP/17/4.

¹⁵⁶ See document SCP/17/4.

university's patents, assisting research collaborations with industry, assisting spin-outs and handling patent disputes, among others. They play a critical role in the commercialization of basic research results by bridging academic research and commercial applications of such research.

X. DEVELOPMENT AND TRANSFER OF TECHNOLOGY

193. Access to new technologies is considered crucial in effectively responding to global challenges, such as development, climate change, health and food security. Indeed, new technologies can be a solution to a number of, if not all, challenges prescribed in the United Nations Millennium Development Goals (MDGs). In particular, Goal 8 of the MDGs states that UN Member States are committed to developing a global partnership, and Target 8f indicates: "in cooperation with the private sector, make available the benefits of new technologies, especially information and communications".

194. Due to the central character of technology and its transfer for economic and social development, issues surrounding transfer of technology and economic and social development are also addressed in other Sections of this document. This concerns, for example, issues relating to international transfer of technology and international regulatory frameworks, policy challenges, designing patent laws and patent information tools to find public domain technologies, which all have a development dimension.

195. As a specialized agency of the United Nations, the effective use of intellectual property for economic, social and cultural development has been a key concern to WIPO. The important role which patents play in the transfer of technology has been analyzed on several occasions by WIPO. Thus in 1975, in cooperation with other international organizations, such as the United Nations Department of Economic and Social Affairs and UNCTAD, WIPO issued a publication titled: "The role of the patent system in the transfer of technology to developing countries".¹⁵⁷ A decade before that publication, in 1964, UNCTAD had delved into the same subject by issuing a publication on: "The role of patents in the transfer of technology to developing countries".¹⁵⁸ Further, more recently, the WIPO Development Agenda has been aiming to ensure that development considerations form an integral part of WIPO's work. The forty-five recommendations adopted by the WIPO General Assembly in October 2007 contain a number of recommendations that relate to the transfer of technology. Specifically, Cluster C "Technology Transfer, Information and Communication Technologies and Access to Knowledge", as reproduced below, highlights the concerns of WIPO Member States and recommends actions in this area¹⁵⁹:

"Cluster C: Technology Transfer, Information and Communication Technologies (ICT) and Access to Knowledge

"24. To request WIPO, within its mandate, to expand the scope of its activities aimed at bridging the digital divide, in accordance with the outcomes of the World Summit on the Information Society (WSIS) also taking into account the significance of the Digital Solidarity Fund (DSF).

¹⁵⁷ TD/B/AC.11/19/Rev.1

¹⁵⁸ "The role of patents in the transfer of technology to developing countries", Report of the Secretary-General, United Nations, New York, 1964.

¹⁵⁹ In addition, Recommendation 19 is also relevant to access to knowledge and technology for developing countries.

“25. To explore intellectual property-related policies and initiatives necessary to promote the transfer and dissemination of technology, to the benefit of developing countries and to take appropriate measures to enable developing countries to fully understand and benefit from different provisions, pertaining to flexibilities provided for in international agreements, as appropriate.

“26. To encourage Member States, especially developed countries, to urge their research and scientific institutions to enhance cooperation and exchange with research and development institutions in developing countries, especially LDCs.

“27. Facilitating intellectual property-related aspects of ICT for growth and development: Provide for, in an appropriate WIPO body, discussions focused on the importance of intellectual property-related aspects of ICT, and its role in economic and cultural development, with specific attention focused on assisting Member States to identify practical intellectual property-related strategies to use ICT for economic, social and cultural development.

“28. To explore supportive intellectual property-related policies and measures Member States, especially developed countries, could adopt for promoting transfer and dissemination of technology to developing countries.

“29. To include discussions on intellectual property-related technology transfer issues within the mandate of an appropriate WIPO body.

“30. WIPO should cooperate with other IGOs to provide to developing countries, including LDCs, upon request, advice on how to gain access to and make use of intellectual property-related information on technology, particularly in areas of special interest to the requesting parties.

“31. To undertake initiatives agreed by Member States, which contribute to transfer of technology to developing countries, such as requesting WIPO to facilitate better access to publicly available patent information.

“32. To have within WIPO opportunity for exchange of national and regional experiences and information on the links between IPRs and competition policies.”

196. Further, in relation to norm-setting, recommendations 22 and 23 read as follows:

“22. WIPO’s norm-setting activities should be supportive of the development goals agreed within the United Nations system, including those contained in the Millennium Declaration.

“The WIPO Secretariat, without prejudice to the outcome of Member States’ considerations, should address in its working documents for norm-setting activities, as appropriate and as directed by Member States, issues such as: (a) safeguarding national implementation of intellectual property rules; (b) links between intellectual property and competition; (c) intellectual property-related transfer of technology; (d) potential flexibilities, exceptions and limitations for Member States; and (e) the possibility of additional special provisions for developing countries and LDCs.

“23. To consider how to better promote pro-competitive intellectual property licensing practices, particularly with a view to fostering creativity, innovation and the transfer and dissemination of technology to interested countries, in particular developing countries and LDCs.”

197. The Committee on Development and Intellectual Property (CDIP) was established by the WIPO General Assembly in 2007 to (i) develop a work program for implementation of the 45 adopted recommendations; (ii) to monitor, assess, discuss and report on the implementation of all recommendations adopted, and for that purpose it shall coordinate with relevant WIPO bodies; and (iii) discuss IP and development-related issues as agreed by the Committee, as well as those decided by the General Assembly. Consequently, implementation of the above recommendations has been monitored, assessed, discussed and reported at the CDIP.¹⁶⁰ Two projects for the implementation of the WIPO Development Agenda are directly relevant to the transfer of technology. They are the “Project on Innovation and Technology Transfer Support Structure for National Institutions”¹⁶¹ and the “Project on Intellectual Property and Technology Transfer: Common Challenges – Building Solutions”.¹⁶²

198. In addition, the project entitled “Capacity-building in the use of appropriate technology-specific technical and scientific information as a solution for identified development challenges”¹⁶³ aims to strengthen the capacity of LDCs to improve the management, administration and utilization of technical and scientific information with a view to building an appropriate technology base. Further, the Project on Intellectual Property and the Public Domain¹⁶⁴ reviews the role of the patent system in the identification, access and use of technology that is in the public domain. In particular, the project includes the preparation of a feasibility study that would focus on legal status information to identify off-patent technology. Since patent information plays an important role in facilitating transfer of technology, other Development Agenda projects that would support the use of patent information through developing IP infrastructure and enhancing the capacity for such use also contribute to promoting transfer of technology at the international level.

199. In order to achieve an efficient and effective debate on the SCP’s work on transfer of technology, the complementary and non-duplicative nature of the work undertaken by the SCP and the CDIP should be examined. The status of progress on the projects for implementation of the Development Agenda recommendations is published on the WIPO website at: <http://www.wipo.int/ip-development/en/agenda/projects.html>. The Secretariat will assist Member States in this respect by ensuring internal coordination within the International Bureau.

200. As UNCTAD’s Innovation Capability Index suggests, there are large gaps among countries, not only between developed and developing countries but also among developing countries, in terms of technological activity and human capital.¹⁶⁵ How to design a patent system that functions in the way for which it is intended, i.e., to promote innovation, technological development, the diffusion and transfer of technology and private investment flows, in those very different countries is a real challenge. One scholar suggests that the need for patent protection on technology transfer and local innovation in developing countries varies with the level of development.¹⁶⁶ According to this researcher, econometric cross-section evidence suggests an inverted-U shaped relationship between the strength of patents and income levels, i.e., the intensity of patenting first falls with rising incomes, as countries slacken patents to build local capabilities by copying, then rises as they engage in more innovative effort. Another researcher who examined the experience

¹⁶⁰ Background documents, working documents and reports concerning the WIPO Development Agenda are available at: <http://www.wipo.int/ip-development/en/agenda/>.

¹⁶¹ See document CDIP/6/2.

¹⁶² See document CDIP/6/4 Rev.

¹⁶³ See document CDIP/5/6 Rev.

¹⁶⁴ See document CDIP/4/3 Rev.

¹⁶⁵ UNCTAD, World Investment Report 2005.

¹⁶⁶ Sanjaya Lall, “Indicators of relative importance of IPRs in developing countries”, UNCTAD-ICTSD, Issue paper No. 3, June 2003.

of the Republic of Korea concluded that strong IPRs protection would hinder, rather than facilitate, technology transfer to indigenous learning activities in the early stage of industrialization when learning takes place through reverse engineering and duplicative imitation of mature foreign products.¹⁶⁷ He argued that it is only after countries have accumulated sufficient indigenous capabilities with extensive science and technology infrastructure to undertake creative imitation that IPR protection becomes an important element in technology transfer of industrial activities. On the other hand, as some economic studies referred to in Chapter V suggest, the interaction between IPR protection and the transfer of technology could be complex, and the level of development is one among many other factors that relate to the technology transfer processes which can again vary.

201. Therefore, although one cannot generalize in addressing the challenges faced particularly by developing countries, in countries where available resources are limited, the legal framework of the patent system and technology transfer tools available under that system (such as voluntary and non-voluntary licensing) would not by themselves automatically generate knowledge transfer. Other factors affecting knowledge transfer, absorptive capacity and development of domestic innovation include the availability of infrastructure and skilled workforce, the level of education, technical expertise, the size of the market and political stability and security. Further, it can be assumed that, in general, parties from developing countries have less experience in negotiating technology licenses than parties from developed countries, and consequently, a potential transferor and a potential transferee possess unequal bargaining power. Among technology holders in developing countries, the awareness of using the patent system as a tool to exploit one's own technological assets and to introduce another's technology may not be high, and knowledge of how to utilize the patent system to that end might need to be further developed. Similarly, access to patent information may be limited, or its utilization for the purpose of transfer of technology may still be low.

202. In response to those challenges, WIPO supports its Member States by providing capacity building programs and training courses on innovation and commercialization, such as patent drafting, licensing and IP management. Further, legislative advice and technical assistance, such as training sessions for government officials and modernization of IT infrastructure of patent offices, are also provided. In addition, WIPO develops free IP databases, assists digitization of patent collections and supports the utilization of patent information tools in developing countries.

203. In many developing countries, the bulk of research in general, and research in key national areas in particular, has been traditionally concentrated in the public research sector.¹⁶⁸ Therefore, it is naturally assumed that the effective flow of government funds spent on public research is of vital importance in these countries. It is observed that linkages between the public sector and the private sector are constrained by a number of structural factors and inertias in developing countries, which are not the same in each country.¹⁶⁹ In order to arrive at a meaningful set of policy directions to overcome those constraints, it is necessary to look into the prevailing research capacity and national innovation environments at large.¹⁷⁰

¹⁶⁷ Linsu Kim, "Technology transfer & intellectual property rights", ICTSD-UNCTAD, Issue paper No. 2, June 2003.

¹⁶⁸ Mapping research systems in developing countries p country review template, UNESCO, 2009.

¹⁶⁹ Zuñiga, M. P. (forthcoming). The State of Patenting at Research Institutions in Developing Countries: Policy Approaches and Practices. Working Paper Series of the Economics and Statistics Division (Background report to the World Intellectual Property Report 2011). Geneva: World Intellectual Property Organization.

¹⁷⁰ Ibid.

204. It appears that there is general agreement that national patent policy and laws should be adjusted to the needs of each country, taking into account its economic and social development.¹⁷¹ While history offers us rich lessons from the past, it may be worth noting that the current economic and social environments are not exactly the same as in the past. In addition to intensified globalization, it is said that the world today is in a transition to a knowledge-based economy where knowledge would become a strong competitive advantage in the globalized market. In the past, the low labor wedge was one of the major reasons for FDI in developing countries. However, with the increasing importance of intangibles and knowledge, the low price of labor is not the only reason for many companies to set up R&D facilities in developing countries. They are attracted by the possibility of plugging into national clusters of excellence and obtaining local knowledge, which is required to respond to the specific needs of national and local markets.¹⁷² Technological advancement, in particular, in the field of information and communication technology, has dramatically increased the possibilities of retrieving and exchanging information and knowledge. Compared with the pre-Internet age, accessibility to scientific and technological information, including patent information, has been considerably improved. With a view to the ever-increasing competition in the market, firms as well as policy makers have been searching for new innovation models, such as open innovation models, advantageous to cross-border collaboration and cooperation. With a view to designing a future patent policy aimed at effective technology transfer, both nationally and internationally, these new elements may also be taken into account.

XI. INCENTIVES AND IMPEDIMENTS TO TRANSFER OF TECHNOLOGY

205. In the previous Chapters, elements that may be considered supportive of an active transfer of technology (i.e., incentives) or rather obstacles to transfer of technology (i.e., impediments) have been described from different viewpoints. This Chapter focuses on those elements with a particular focus on the impediments,¹⁷³ for the following reasons:

- (i) incentives and impediments are often two sides of the same coin;
- (ii) a list of impediments to transfer of technology may assist in identifying the areas that may require further improvement in the patent system.

Therefore, although this Chapter focuses on the aspects that may be impediments to transfer of technology, this should not be interpreted as meaning that there are fewer incentives than impediments, or that the net balance can be determined by counting them, since these factors are all highly qualitative and contextual. Such a list of impediments is intended to flag some shortcomings and which may turn into incentives if addressed and resolved.

206. In view of the fact that technology, or more accurately, the knowledge associated with technology, is transferred from one person to another person, incentives as well as impediments to transfer of technology can and should be considered from the perspectives of both sides, i.e., incentives and impediments for transferors to transfer their knowledge to others and incentives and impediments for transferees to obtain and use the knowledge. This Chapter also addresses these two viewpoints in order to take into account the interests of both parties involved in the process of transfer of technology. Certain incentives or impediments may highlight the conflicting interests between potential transferors and transferees at the outset. However, such conflicting interest are

¹⁷¹ For instance, recommendations 15, 17 and 22 of the WIPO Development Agenda.

¹⁷² "The world is our oyster", The Economist, October 7, 2006.

¹⁷³ In order to avoid repetition, this Chapter summarizes the descriptions relating to incentives and impediments found elsewhere in this document. More information is found in the relevant Chapter.

often dealt with by the national policy framework addressing competition in the market and taking into account the interests of society as a whole.

207. The following paragraphs address different kinds of incentives and impediments from a theoretical point of view. They do not imply the existence of such incentives and impediments in a particular country. It appears that, depending on the circumstances of each country, different incentives and impediments can be identified. Furthermore, it is most likely that the extent to which each incentive or impediment supports or hampers knowledge transfer in the real world may depend on each individual case. Therefore, to better understand the practical implications of various possible incentives and impediments, more information on practical experiences from experts directly involved in knowledge acquisition and licensing, and case studies, might be useful. They may merit a thorough review that goes beyond the level of a preliminary study, but could be envisaged for future sessions of the Committee.

A. INCENTIVES TO TRANSFER OF TECHNOLOGY

208. From technology transferors' perspective, technology transfer may bring benefits both economically and technologically. Royalties and licensing income are additional income for transferors, and sometimes the only way of gaining profit if the transferor's only asset is intangible knowledge and technical know-how (without having any production line or sale of products). Technology licensing and technical collaboration agreements are one way of gaining access to local knowledge for transferors. In order to ensure economic and technological benefits, transferors need some form of mechanism that allows them to control their knowledge, which is by nature a public good and susceptible of being copied. Similarly, protection of confidential business information that is associated with the technology may be sought. In order to reduce costs and uncertainty, transferors may seek:

- (i) clear and enforceable rules and a consistent application of those rules;
- (ii) simplified formalities relating to knowledge transactions;
- (iii) a supportive environment where a high probability of return on investment can be expected, for example, the capacity of potential transferee, the level of infrastructure and the local legal, economic and social environment (such as the regulatory framework, the size of the transferee's market, education etc.);
- (iv) other advantages, such as tax incentives;
- (v) easy access to supportive information and services.

209. From transferees' perspective, obtaining new technology may result in more competitive advantages vis-à-vis competitors, selling more products, better participation in trade and economic success, although technology alone does not guarantee such success. In order to reduce costs and uncertainty, a clear, enforceable and consistent application of the rules, simplified formalities and economic incentives such as tax incentives are also incentives for transferees. Further, easy access to supportive services and information, in particular, information regarding existing technology, is also useful for potential transferees. The process of transfer of technology cannot be optimal without having access to information that offers potential technical solutions to the problems that are faced by the potential transferee, including both proprietary and public domain technology. In addition, since incorporating a new technology into the transferee's business may require additional investment, easier access to banks and investors to finance those costs may also be relevant.

210. Transferees would probably seek the most cost effective way of obtaining technology. Since there are many ways knowledge can flow, trying out the knowledge obtained from the public domain and reverse engineering may be the best option for a transferee in some cases, while in some other cases, obtaining a comprehensive technology license from the technology holder or concluding a turn-key contract may be the best choice in the long run. In any case, transferees may benefit from an increased number of options for transfer of technology. In this regard, better opportunities for potential transferees to learn about existing technical solutions through publications, exhibitions and face-to-face dialogues will increase existing choices.

211. How does the patent system provide incentives to transfer of technology? By transforming knowledge into a tradable intangible property asset, the patent system provides a mechanism that motivates technology holders to disclose their inventions without fear of free-riding. The extent of control by a patent holder through his exclusive right, however, is limited by the applicable national law, implementing the flexibilities available under the international patent system, so that the overall efficiency of the flow of knowledge may not be compromised. A clear, enforceable and consistent application of patent laws, regulations and guidelines increases certainty for all stakeholders. A better accessibility to the patent system, including obtaining, enforcing and challenging patents will improve the dynamics of the system. A mechanism that increases the validity of patents would increase legal certainty about the value of the property under transaction and reduce transaction costs. A high quality of services provided by patent professionals and a high level of competency of national authorities dealing with patent-related matters are elements that support the credibility of granted patents. Further, patent information provides technical information, identifies the public and proprietary technologies, and identifies patent owners and potential business partners. An accurate and timely publication of patent information and a high level of accessibility to the full contents of patent information prepare the stage for transfer of technology.

B. IMPEDIMENTS TO TRANSFER OF TECHNOLOGY

212. Not only transferors and transferees may benefit from transfer of technology but the general public may also benefit from the development of technology facilitated through such transfer in the long run, although sometimes conflicting economic interests may be observed among various stakeholders. In general, national policy measures and legal frameworks are the main instruments employed to maximize benefits for society as a whole. The difficulty for policy makers is that, due to the lack of measurable indicators and comprehensive evidence, there appears to be no golden rule that can be applied in order to maximize social benefits under the specific circumstances of different countries.

(i) Transferors' perspective

213. To secure income from royalties and technology licensing, the technology should be transferred to the transferee in such a way that the transferee's business becomes operational, making enough profit to pay royalties and licensing fees. Direct and indirect costs that are associated with this process of transferring the technology to the new environment and adapting to it may be borne by the transferor as well (although the exact amount of such costs depends on the agreement). In general, the costs for an investment are expected to be high if the following conditions exist:

- poor availability of physical and telecommunication infrastructure;
- poor availability of resources, technical expertise and labor skills which will entail higher cost of education and training;
- high organizational costs due to social specificities or local regulations;
- high transfer costs, for example, restrictions relating to importation/exportation;

- low level of expected profit because of the market size, expected growth of the relevant market, geographical location, high wages, low income level, the nature of the technology in use in the transferred society;¹⁷⁴
- low level of political stability and security;
- low level of business incentives such as high taxes.

214. Insufficient mechanisms to secure the control of the technology as well as of the confidential business information in the transferee's country may not incentivize a potential transferor to disclose the technology. Due to economic or technological reasons, the potential transferor may be interested in sharing his technology with others. However, if the potential transferor has, for example, no or very limited possibility to negotiate terms and conditions, the benefits of sharing technology may be exceeded by the costs arising from uncontrollable copying and use of the technology by others. Absence of legislation or lack of its enforcement are further influencing factors.

215. Lack of information is, in general, an impediment for the potential transferor to engage in the investment required for transferring technology. For example, if he is not able to find potential transferees interested in his technology, transferring that technology will not take place, even if the transferor is willing to do so.

(ii) Transferees' perspective

216. Many aspects that make transferors hesitant to transfer their technology are also impediments that may apply generally to potential transferees. For example, poor availability of infrastructure and resources, high organizational and transfer costs due to social specificities, regulations, tax or business environments and a low level of political stability and security may discourage potential transferees from making investments in obtaining new technology. Particularly where the potential transferee is from the private sector, the motivation for transfer of technology is not acquiring the technology *per se*, but to transform it into future profit.

217. In this regard, the poor capacity of a transferee to evaluate and use the technology relates directly to the cost of introducing the technology into the transferee's environment. The absorptive capacity to analyze and apply the technology in order to solve concrete problems encountered by the transferee, and to lead such technical superiority towards commercial success, may not be limited to the technical capacity, but may also be affected by managerial and commercial skills.

218. Some of the general impediments mentioned above are aspects that prevent potential transferees from obtaining technology even if the required technology *per se* is readily available on the market, free of charge. For example, lack of expertise, the amount of associated organizational and commercialization costs, various restrictions for the transferees to obtain the required technology, such as regulatory restrictions and cumbersome formalities, would result in costs that might exceed the expected commercial gain.

219. While the terms and conditions of the agreement between a transferor and a transferee are based on negotiation, there are cases where the "market price" of the technology is beyond the reach of the transferee. This could happen, in particular, where the incentive for transferor is extremely low or the income level in the transferee's country is much lower than in the transferor's country.

¹⁷⁴ Depending on the case, the high level of profit could be expected because of the high purchasing capacity due to the high wages, or because of the low labor costs due to the low income level of the country concerned.

220. The difficulty of finding potentially available technology, both in the public domain or within the proprietary technology, is often raised as an impediment. Information about whom to contact and how to find support is a priority need of potential transferees. Further, since the adaptation and implementation of new technology incurs costs, limited access to financial resources may decrease the opportunities for a potential transferee.

221. Often, although not always, a potential transferee may be in a weaker bargaining position than a potential transferor due to information asymmetry. A potential transferee may have limited information about the technology to be transferred. It may be assumed that, in general, bigger firms with large resources may have more technologies to offer than smaller firms with limited resources. In general, a party having less financial resources, less technical expertise, less negotiation skill and less information about the relevant regulatory and business environment may be expected to have more difficulties in negotiating an agreement than the other party. Problems derived from lack of resources may be exacerbated if they affect a weaker party's ability to access the judicial system or any other mechanism for solving disputes. The lack of dynamic competition may be another aspect that negatively affects less resourceful entities.

222. Unclear or unenforced laws increase uncertainty for a potential transferee as well as for a transferor. See paragraph 214.

(iii) The patent system

223. What are the situations in which the patent system could become an impediment to transfer of technology? In light of the statement in Chapter V(A) that "the patent system could make a positive contribution to the efficient transfer of technology only where the system functions in the way for which it is intended", the above question may be rephrased as follows: what are the situations in which the patent system does not function in the intended manner and might have negative, rather than positive, contributions to an efficient transfer of technology?

224. In the absence of comprehensive studies and evidence, it is not possible to measure the exact "share" of the malfunctioning of the patent system among the various impediments for transfer of technology. The dynamics of technology transfer and its interaction with the patent system vary from one context to another. Furthermore, there are multiple factors that may cause a malfunctioning of the patent system. This paper only highlights causative factors from a theoretical point of view. To better understand the exact magnitude of the negative contributions to an efficient transfer of technology caused by the use of the patent system, it may be necessary to collect more practical experiences and look at both successful and unsuccessful cases in detail.

225. Possible impediments caused by the patent system fall into two areas. The first area relates to the technology transfer process of patented inventions, which can be affected by, for example, information gaps, high transaction costs and limited resources. The second area relates to practices that may not be in conformity with the general objectives of the patent system. Implementation of the applicable national law, including financial and human resources associated with such implementation, may be the main issue here. The following paragraphs summarize situations where an efficient transfer of technology may be hampered by unintended consequences of the patent system.

226. *Unclear patent laws and regulations:* The applicable patent law and regulations are not accessible, or their provisions are not comprehensible. There is no guidance as to how the legal provisions should be applied in different cases.

227. *Inconsistent application of patent-related legislation:* The provisions of the patent law and regulations are not consistently applied. Therefore, it is difficult to predict the decisions of the

authorities. For example, the determination of the inventive step requirement under the patent law is made in an inconsistent manner. In such a case, the issue of the quality of granted patents may also arise (see below).

228. *Unclear ownership and scope of patents:* The ownership of a patent is ambiguous. For example, the entitlement to future patent rights on collaborative R&D results is not agreed between the parties in advance. Further, the claims are not clear and concise, leaving uncertainty about the scope of patent protection.

229. *The validity of patents is not credible:* Inadvertently granted patents or so-called low quality patents increase transaction costs. Patents with questionable enforceability create uncertainty for both a potential transferor and a potential transferee. If an invalid patent is enforced, and there is practical difficulty in revoking such a patent, that patent may in effect prevent others from using the invention which should have been left in the public domain for their use.¹⁷⁵ While each requirement under the patent law has its own rationale, compliance with the following requirements may be most relevant as they relate to the substance of the invention: patentable subject matter, novelty, inventive step (non-obviousness), industrial applicability (utility), sufficiency of disclosure and clarity of claims.

230. *Lack of appropriate mechanisms to enforce valid patents or to challenge invalid patents:* The lack of appropriate mechanisms to enforce valid patents would challenge the proper functioning of the patent system, and consequently, of the technology transfer envisaged. Similarly, the lack of appropriate mechanisms to challenge and invalidate erroneously granted patents increases transaction costs.

231. *Delayed publication or inadequate contents of patent information:* The delayed publication of patent applications, search and examination reports and patents, delayed registration of licensing agreements or inaccuracy in the patent registry, for example, do not support timely sharing of knowledge. Furthermore, if a published patent does not comply with the disclosure requirement, it would in effect allow the patentee to obtain the exclusive right without appropriately disclosing his invention to the public.

232. *Low accessibility of patent information:* In general, national patent laws require the full contents of patents to be made available to the public. While third parties may be able to inspect the full contents of patents at the patent office, only limited information may be published in an easily accessible manner (for example, only abstracts are published in the official gazette, but the entire specifications and the legal status of patents need to be consulted at the patent administration). In addition, where a patent office has difficulty in accessing patent information of other countries, it could affect the quality of prior art searches, and as a consequence, the quality of granted patents.

233. *Constraints relating to patent licensing:* The general constraints for negotiating, concluding and enforcing licensing agreements may also be applicable to patent licensing. Such constraints may even be accentuated with respect to patent licensing through the complexity of the subject matter involved. For example, identifying the scope of patent claims, analyzing the state of the art and the patent landscape and evaluating the “price” of the patented inventions all require special expertise. The lack of experienced patent agents and patent attorneys may also be considered as a missing element in the chain of transfer of technology. Further, where a product or the implementation of the technology involves a high number of essential patents owned by a number

¹⁷⁵ Assuming there are no other IP rights that prevent third parties from using that invention.

of different owners, the cost of evaluating those patents and negotiating licensing agreements separately with each patentee can become extremely high. Similarly, certain non-practicing entity (NPE) business models may distort competition in the technology market and increase transaction costs. Systemic and comprehensive studies regarding the exact impact of these business models on the public interest as a whole, both within the country in which the patents are granted and outside that country, however, are still lacking.

234. *Lack of, or insufficient, competition law:* Some patent licensing practices or conditions pertaining to patent rights which restrain competition may impede transfer of technology. Consequently, where national competition laws cannot adequately prevent or control licensing practices and conditions that constitute an abuse of patent rights having an adverse effect on competition, this may discourage transfer of technology.

235. *Lack of well-trained judges and officials:* The lack of well-trained officials in the patent administration and judges familiar with patent cases is directly relevant to not only the quality of patents, but also the credibility of the patent system as a whole. The lack of experience may be due to financial constraints, but may also come from the amount of patenting activities in a given country. While the consequences of a lack of qualified human resources are clear, how to mitigate the shortcoming is relatively complex, because there are different ways and means to design, for example, the search and examination mechanism under the national patent procedures, and training alone may not fully address the issue. Similar issues arise with respect to the lack of officials for the effective implementation of competition law.

236. *Lack, or insufficient use, of so-called policy levers:* If there is no flexibility for a country to design so-called policy levers, such as exclusions from patentable subject matter, exceptions and limitations to the patent rights, compulsory licenses etc., countries may find it difficult to manage the various interests of different stakeholders, and to maximize the social benefits that could flow from use of the patent system. Whether or not a particular policy lever is an impediment to transfer of technology will depend on the surrounding environment and probably be case-specific. The particular use of one specific policy lever cannot be considered in isolation. Possibly, the combination of different policy levers in the patent system as well as outside of the patent system, needs to be considered as a whole, including the consequences of using such levers on the decisions of potential transferors whether to transfer technology to a particular country.

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