

## CLAUSE IN PATENT LICENSE CONTRACT THAT INHIBITS TECHNOLOGY TRANSFER PROGRAMS IN INDONESIA

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### ABSTRACT

*The issue of technology transfer is a problem that has always been faced by developing countries since the country directed its economic development by focusing on the industrial sector. However, to carry out this development most developing countries face several major obstacles in technology transfer such as funds, experts and technology itself. The main obstacle is in the patent licensing clause that requires the licensee to buy other products or services from the licensor. Actually this clause does not cause problems as long as the products and services of the licensor are indeed really needed for the interests of production from the licensee in Indonesia. The problem that might arise is if the licensee is required to buy other products or services from the licensor that are not actually needed by the licensee. So that it is not only detrimental to the licensee but also harms the state.*

Keywords: Clause, Patent License Contract, Inhibit, Technology Transfer.

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### A. Introduction

The issue of technology transfer is a problem that has always been faced by developing countries since the country directed its economic development by focusing on the industrial sector, up to the industrial sector being the backbone of the national economy. However, to carry out this development, most developing countries including Indonesia face several major obstacles in technology transfer, such as funding, experts and technology itself.

For this reason, developing countries are competing to invite the entry of foreign capital into developing countries. Various facilities and policy packages were launched to attract foreign investors. At the same time, efforts are also made to increase the mastery of technology, by means of the process of technology transfer in developed countries to developing countries.

The transfer of technology is presented, most of which is by way of patent licenses, which in Indonesia involve foreign private and national private companies. But the problem is, whether the entry of foreign technology will occur technology transfer. This is because in technology transfer agreements are often contained in various clauses that severely limit local partners in their efforts to achieve technology.

From this background, the author is interested in writing a paper entitled "Clause in Patent License Contracts that Inhibits Technology Transfer Programs in Indonesia".

### B. Formulation of the Problem

In this paper the formulation of the problem to be discussed is: What is the clause in the patent license contract that is considered to hinder the technology transfer program in Indonesia?

### C. Discussion

License is a permit granted by a Patent Holder to another party based on an agreement granting the right to enjoy economic benefits from a Patent that is given protection within a certain period of time and conditions.<sup>1</sup>

While the patent license agreement according to Budi Maulana, is one type of industrial license that is generally regulated in civil law. Furthermore, it is said that the patent license agreement is not different from other individual agreements. The rights to enjoy and enforce the terms of the license depend on the contractual nature of the license, rather than the fact that patent rights are involved.<sup>2</sup>

In contrast to the above opinion, it was stated by Sumantoro, namely that the licensing agreement is a technology award contract to use process rights in return. Patent license agreements differ from other general agreements, because the patent owner only gives licenses to the licensee, while the patent rights still belong to the owner of the patent and do not belong to the licensee.

As a general rule, patent licenses are personal and not transferable, unless the conditions contained in the agreement indicate the intention to permit the transfer.<sup>3</sup>

So in the case of patent licensing agreements, the basic provisions for licensing are regulated in Law No. 13 of 2016 concerning Patents, especially in Article 76 - 80. However, the details of the provisions regarding licenses in the form of implementing

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<sup>1</sup> Dewi Astutty Mochtar, 2001, *Pertjanjian Lisensi Alih Teknologi Dalam Pengembangan Teknologi Indonesia*, Penerbit Alumni, Bandung, p. 241

<sup>2</sup> Insan Budi Maulana, 1996, *Lisensi Paten*, PT. Citra Aditya Bakti, Bandung, p. 21

<sup>3</sup> Op Cit p. 91.

regulations have not yet been determined. This means that the technology transfer agreement is regulated based on the provisions of the Civil Code, while the licensing of patents is based on the provisions of the Patent Law.

Therefore the legal basis for regulating patent licensing agreements will continue to use the general provisions in the Civil Code, especially the terms of the agreement even though the freedom to make agreements will be limited by the provisions of Article 1320 of the Civil Code and Article 76 section (1) of Law No. 13 of 2016 concerning Patent.

Through this patent license agreement, the technology provider grants rights to the technology recipient for a certain period of time and with terms and conditions agreed upon, utilizes and uses technology from the technology provider for a particular purpose.

So in patent licenses, the intellectual property rights remain attached or remain in the licensor, so their rights do not change. The legal relationship is the legal relationship of authorization from the licensor to the licensee within a certain period of time, in accordance with the contract held.

Amir Pamuntjak believes that the most effective way to transfer technology is through a licensing agreement that is held directly between foreign companies/entrepreneurs abroad with Indonesian entrepreneurs/companies. This license agreement must be carried out by a foreign company to a national company, and not from a parent company to a subsidiary.<sup>4</sup>

This licensing agreement system grows and develops in practice in accordance with the agreements made by the parties. In accordance with the open system the license agreement is not prohibited. Therefore, it is permissible for the agreements made by the parties even if they are not regulated in the Civil Code.

Whereas according to Subekti the contract is an agreement in the strict sense and the agreement is made in writing. In terms of the development of contract law, initially the legal structure of the agreement was determined by the parties in order to meet the very dynamic business needs, the agreement was made by one of the parties, and the two agreements were binding on the parties.<sup>5</sup> Obviously what matters in the contract are the material basis and not the formal basis.

Patent licensing contracts that are made as a means of technology transfer are guided by Article 1233 of the Civil Code concerning engagement in general and Article 1313 concerning agreements in particular.

The legal basis for the entry into force of the contract and the binding of a licensing contract in Indonesia is the principle of freedom of contract, which is stated in Article 1338 of the Civil Code. The basic principles of the contract include interrelated principles, namely the principle of consensualism, the principle of binding contracts, and the principle of freedom of contract.

The principle of consensualism is related to the occurrence of a contract which begins with an agreement or there is an agreement between the parties to the contract, found in Article 1320 (1) of the Civil Code. There is a consensus from the parties, so the agreement made creates binding power.

On the principle of binding strength of a contract relating to the consequences of the contract which mutually fulfill their respective rights and obligations, contained in Article 1338 (1) of the Civil Code.

In the principle of freedom of contract, everyone is recognized as having the freedom to make contracts with anyone, free to determine the contents of the contract, free to determine the form of the contract and free to choose the law that applies to the contract in question.

The principle of consensualism is thus related to the birth of a contract, the principle of binding strength of a contract relating to the consequences of the contract and the principle of freedom of contract relating to the contents of the contract.

The contract cannot be withdrawn except with agreement from both parties, contained in Article 1338 paragraph (2). The basic principle of the contract held is always made in good faith, contained in Article 1338 section (3) of the Civil Code.

As for Patents according to article 1 number 1 of Law No. 13 of 2016, Patents are exclusive rights granted by the state to inventors for the results of their inventions in the field of Technology for a certain period of time implementing the invention themselves or giving approval to other parties to implement it.

According to Ita Gambiro, what is meant by technology is all the "know-how", knowledge, experience, and skills needed to make a product or products and for the establishment of a company for that purpose.<sup>6</sup>

While according to Peter Mahmud Marzuki stated that: technology is a "Technical Know-How" relating to producing goods and services including tools.

<sup>4</sup> Amir Pamuntjak, *Kertas kerja, Pengaturan Penyelenggaraan Pengalihan Teknologi*, Tanpa tahun, p. 220.

<sup>5</sup> Subekti, 1990, *Hukum Perjanjian*, Internusa, Jakarta, p. 1

<sup>6</sup> Ita Gambiro, *Pemindahan Teknologi dan Pengaturannya Dalam Peraturan Perundang – undangan, Makalah Dalam Seminar Aspek Hukum dan Pengalihan Teknologi*, Manado, 1978, p. 168

Technology is an absolute requirement in economic development because with technology can be obtained greater efficiency and productivity in relation to the sources used. This means that in terms of economics technology enables multiplication of profits.

The technology needed by the Indonesian people is technology that can overcome development problems that can be harmoniously linked, harmonized and balanced with national development goals.

The meaning of the importance of technology as a benchmark for the progress of development of a nation turns out that the acquisition is not that easy, especially because there are no formal rules regarding technology and technology transfer.

Until now, the Indonesian nation has not been able to absorb technology optimally from developed countries. The main factor is because the human resources are inadequate, so the expertise possessed is only limited to certain fields.<sup>7</sup>

While what is meant by Transfer of Technology is a process to obtain technological capabilities from abroad.<sup>8</sup> Here the transfer of technology inevitably is needed by developing countries in an effort to develop their industry.<sup>9</sup>

In addition there are also those who say that technology transfer is the transfer of technology from abroad as the owner of technology (home country) which is adapted into the new environment as the recipient of technology (host country) and then assimilation and application of technology into the economy of a receiving country must occur. The technology must be able to be developed and produce new discoveries for further innovations.

In each transaction which includes the transfer of technology, it can be carried out by any party both in the form of foreign investment and national investment, including by individuals, government agencies (State), private entities or international bodies that are carried out contractually.

The technology can be transferred in non-commercial and commercial ways. Technology that is transferred by non-commercial means usually involves the government in the form of sending workers, to study certain fields of expertise or technical cooperation programs between countries.

Commercially transferred technology can be done in ways:<sup>10</sup>

1. Attract foreign capital to invest in Indonesia (with the form of a joint venture);
2. In the form of a license agreement and
3. Other agreements concerning technology contracts (including technical service contracts).

The agreement between technology owners and recipients is a patent license agreement, followed by other agreements including technical contracts, management contracts and so on.

The initial problem with technological problems is the problem of how to obtain them. This is because most technologies and their software are owned by developed countries, and technology for them is not a cheap item that is easily transmitted to those who need it.

Technology owned by developed countries, according to them can be traded and seen as a commodity that is short and expensive. Therefore the country that wants to have to provide funds that are not small enough to be able to absorb technology from developed countries, besides that it also requires skilled workers who can absorb the technology.<sup>11</sup>

If funds are limited even though technological needs cannot be delayed, then the alternative to establishing cooperation is wise enough, as a breakthrough in the problem of technology transfer. Indonesia after experiencing economic bankruptcy in the Old Order era, then the New Order government began to hold a new approach to economic policy, including inviting the return of foreign capital to Indonesia.<sup>12</sup>

Along with that foreign technology seems to bring us to "industrialization", and very freely enter through various PMA facilities and various other business agreements, such as licensing agreements, technology transfer agreements, and various similar business agreements. All Technology Transfer can be done, and there are no obstacles for the entry of foreign technology transfer into Indonesia.<sup>13</sup>

<sup>7</sup> Sri Redjeki Hartono, Ety Susilowati, 2007, *Kontrak Alih Teknologi Pada Industri Manufaktur*, Genta Press, Yogyakarta, p. 9.

<sup>8</sup> Peter Mahmud Marzuki, 1993, *Pengaturan Hukum terhadap Perusahaan-Perusahaan Transnasional di Indonesia*, Disertasi, Universitas Airlangga, Surabaya, p. 25.

<sup>9</sup> M.Daud Silalahi, 1997, *Rencana Undang-Undang Alih Teknologi Perbandingan Perspektif*, Prisma, 4 April 1997, p. 40.

<sup>10</sup> Sri Redjeki Hartono, Ety Susilowati, Op Cit p. 11

<sup>11</sup> Ibid, p.41

<sup>12</sup> Erman Rajagukguk, 1995, *Indonesianisasi Saham*, Bina Aksara, Jakarta p.1.

<sup>13</sup> Tudung Mulya Lubis, 1997, *Alih Teknologi, Antara Harapan dan Kenyataan*, Dalam Prisma Edisi No.4 tahun XVI April 1997, p.8.

The existence of multinational companies plays a very broad role in bringing technology and capital to developing countries, especially countries that can guarantee political, economic, and pleasant environmental stability, including tax incentives, broad markets, competitive labor, and easy to obtain petroleum or other natural resources.

Operational Multinational Enterprises can take various forms from "contracts" or "licenses", to "production sharing", "Technical assistance" is a very broad and tortuous "range" of PMA variations. In fact the technology under Operational Multinational Enterprises can be:<sup>14</sup>

1. In the form of capital goods and sometimes in semi-finished forms which are traded on the market, especially in investment relationships.
2. In the form of skills or expertise in general, sometimes requires expertise and special skills needed for proper use of tools to solve a problem and information about certain parts of technology.
3. Information and know-how, whether in technical form or in the form of expertise in trade, for one technology that has been on the market.

For developing countries it does not have all three forms of technology, it is because of high technology and trained scientists in developed countries. To meet the need for technology, developing countries are forced to bring technology from developed countries, both commercially and non-commercially.

Technology transfer that is done commercially is related to what is called a contract for the transfer of technology or technology contract. The term is widely used in several provisions of regional national law. However, until now there is still no single form or type of contract that can be specifically identified as a contract for technology transfer both at the level of national, regional, and international legal regulations.

UNTC divides the technology contracts into 2 main categories, namely: First, Licensing Agreements (such contracts include contracts relating to patents, know-how, trademarks and franchises). Second, contracts relating to technical assistance (this contract has the characteristics of a sale and purchase agreement).<sup>15</sup>

From a number of technology contracts or methods of transferring the technology mentioned above, the license contract is the most important and most effective method. In many ways, most technology transfers in developing countries are mostly carried out with a licensing agreement.

From a legal standpoint, the transfer of technology can consist of technologies which above it have special rights or technology that can be freely used for the public. This special right is primarily intended for the protection of the technology. Which protection can be based on Patent Law No. 13 of 2016.

Protection of technological results is needed so that right-holders can be protected against the use of a production for a certain period of time within the territory of the country that provides the protection.

But in reality the technology transfer program in question is not easy to implement because it is not uncommon for patent owners abroad to make restrictions in their licensing contracts, and often these restrictions are something that must be accepted and cannot be avoided by patent tenants.

The restrictions in this licensing contract in the international world are often known as RBP (Restrictive Business Practices). This limitation does not always appear in the license contract depending on the licensor whether he will make restrictions or not.

The clause in the patent license contract that blocks the technology transfer program in Indonesia is the Tie In clause. In this clause requires the licensee to buy other products or services from the licensor. Actually this clause does not cause problems as long as the products and services of the licensor are indeed really needed for the interests of production from the licensee in Indonesia. The problem that might arise is if the licensee is required to buy other products or services from the licensor that are not actually needed by the licensee, so that it is not only detrimental to the licensee but also harms the state.<sup>16</sup>

Frequently used clauses usually contain the following: that the license tenant (licensee) is bound by various obligations, especially those relating to raw materials, components, to import from licensors (overseas license owners).

Opportunities to import raw materials and components from third parties other than the license owner are not wide open because the licensee must request prior approval from the licensor, even if the raw materials needed are available in the country must also get prior approval from the license owner. This kind of binding clause seems to have become part of a licensing contract because it seems that every licensing contract contains this clause.

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<sup>14</sup> Budi Santoso, 2005, *Butir Butir Berserakan Tentang Hak Atas Kekayaan Intelektual*, CV Mandar Maju, Bandung, p. 114

<sup>15</sup> Dewi Astutty, *Op Cit*, p. 116

<sup>16</sup> Budi Santoso, *Ibid* p. 125

As long as it is needed and brings benefits to the licensee in Indonesia, there is no need to question its existence. However, considering that this has the potential to cause losses to the state from the import tax sector and uncontrolled flow of foreign exchange abroad. It is therefore an obligation for the government to carefully accept the licensing contract with the binding clause.

Another obstacle is in the clause of the technology transfer transaction program in general, concerning the negotiation and drafting of contracts. The obstacles are related to the scope and form of technical assistance services, specifications and terms of conditions that they (the parties) carry out, the determination of who will bear the costs of special services and special assistance, whether the licensor is a technology supplier or by licensee.

#### **D. Closure**

##### **1. Conclusion**

The clause in the patent license contract which inhibits technology transfer programs in Indonesia, namely the clause in which there is a tendency for license holders from abroad to limit the technological development they have by technology tenants namely Indonesia by including limitation clauses in their licensing contracts. For example, in the contract requires the licensee to buy another product or service from the licensor, even though the other product or service is obviously not needed for the sake of production by the licensee, namely Indonesia.

##### **2. Suggestion**

In order for the clause in the patent license contract not to impede the technology transfer program in Indonesia, Indonesia must immediately realize the establishment of a Law on technology transfer that can force foreign parties in licensing contracts to realize the agreed technology transfer program.

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