

# Environment for Licensing in Peru

*Examination of law and reality  
—a difficult setting for foreign  
investors to understand*

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The purpose of this work is to briefly describe the current legal environment in Peru for technology, patent and trademark licensing. In doing so the basic purpose is to contrast law and reality. The way in which both worlds interrelate in Latin America is probably the most difficult aspect of the legal environment for foreign investors to understand; therefore, this work is aimed at clarifying the real setting for such transfers in Peru, rather than evaluating the same\*.

The legal framework applicable to technology transfers and patent and trademark licensing to Peru is composed of three basic sets of rules:

- a) Industrial Property Regulations.<sup>1</sup>
- b) Rules on Technology Transfers and Patent and Trademark Licensing.<sup>2</sup>
- c) Regulations on Taxation and Remittance of Royalties.<sup>3</sup>

## AUTHORITIES

At present ITINTEC (Institute for Industrial Technological Investigation and Technical Norms) is in charge of the administration of the Industrial Property Regulations and CONITE (National Commission of Foreign Investments and Technology) is in charge of approving and regulating contracts for the importation of technology and licences for trademarks and patents. CONITE also interrelates with the exchange Control Authorities (Central Reserve Bank) and the Peruvian Tax Authorities (Direccion General de Contribuciones).

Until mid-1977 ITINTEC was also in charge of the approval and regulation of contracts for the importation of technology and licensing of trademarks and patents. It has been only recently that CONITE<sup>4</sup> has assumed this function. Thus most of the relevant experience on this subject was acquired by ITINTEC. For this reason the principal information contained in this work will draw on the experience with ITINTEC. It should be noted that CONITE, although on a more liberal vein, is following many of ITINTEC's practices; and that, at points where CONITE's practice diverges from ITINTEC's, so will be noted.

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## INDUSTRIAL PROPERTY

The basic industrial property rules are contained in the Regulations of the General Law of Industrias<sup>5</sup> which governs patents, industrial designs, technological procedures, trademarks and commercial names and denominations. As noted, ITINTEC is in charge of the administration of these rules.

The regulations establish that patents may be obtained by any natural or juridical person in regard to an invention, discovery, or improvement of practical application. Patents are valid for 10 years from the date on which they are granted and, thereafter, become part of the public domain.

The registration and recognition of the exclusive right to use a form, a configuration, or an ornament or design applicable to an industrial article can be requested by any natural or juridical person as long as such is its own or is significantly distinctive. Title to such registration entitles the owner to the right of exclusive use for five years.

Certain non-patented technological procedures are offered protection as industrial property if they are considered to be trade secrets. Such procedures are protected by general application of law and need not be necessarily registered to be covered.

Persons who carry out an industrial activity are obligated to request from ITINTEC the registration of the trademarks they use or plan to use. Real or made-up words, labels, covers, original containers, seals, emblems, monograms, logos, unnecessary or unusual forms of products, and in general, all symbols significantly distinctive to designate products can be registered as trademarks. Registration of such trademarks confers property and exclusive right to use for five years from date of authorization, which term can be renewed indefinitely for equal periods of time.

All natural or juridical persons can register a commercial name which they use to distinguish them from another similar person in the same economic activity. The exclusive right to such commercial name is actually acquired by its use and not by its registration, and such right ends with the dissolution or liquidation of the company concerned, or the closure of the establishment using such name.

\*For an evaluation of such setting see Danino, Ortiz, Rose, *Transfer of Technology to Peru*, in "Public Policy and Technology Transfer" Vol. III at 374 (March, 1978) U.S.A. Library of Congress N° 78-54600 See also American Chamber of Commerce of Peru, *The Transfer of Technology to Peru* (January 1978). See also Sagasti, *A Framework for the Formulation and Implementation of Technology Policies: A Case Study of ITINTEC in Peru*, in *Science, Government, and Industry for Development* 203 (Ingerson Bragg ed. 1975). Also ITINTEC, *Efectos del Proceso de Importacion de Tecnologia en el Peru* (periodo 1971-1974) Serie Politica Tecnologica N° 5, MIT, Lima (1977).

## TECHNOLOGY, TRADEMARK AND PATENT LICENSING

In Peru, the importation of technology and the licensing of foreign trademarks and patents are basically regulated by articles 18 through 26<sup>6</sup> of the Andean Foreign Investment Code<sup>4</sup> (hereafter referred to as the "Code"). Thus these rules are in force, although not equally applied, in the other Andean countries, i.e. Bolivia, Colombia, Ecuador and Venezuela.<sup>8</sup>

These rules require that all contracts for the importation of technology, patents and trademarks are to be examined and approved by each country's competent authority in the case of Peru, such authority is now CONITE.<sup>10</sup> This body is required to evaluate the actual contribution of the imported good technology, patent and/or trademark, to estimate profits resulting from it, the prices of the goods incorporating it, and in general quantify its effects. CONITE should also evaluate the effect on the development of the Andean technology and the use of local services, occupational effects, and the effect on development plans and balance of payments, and on the environment.

In this regard, it is important to note that the Andean Pact's Decision 84, the Bases for a Sub-regional Technology Policy, is in force in Peru,<sup>9</sup> and therefore constitutes another guideline by which the authorities may evaluate the contracts.

### Guidelines

This decision, as well as certain parts of Decision 24, gives guidelines regarding what the Andean Pact countries regard as suitable technology policy to be implemented in the future. Such policies include requiring the recipient of the technology to indicate the alternative sources which are available, in certain cases debundling (desegregation) of the technology package is also required; and the necessity to create a regional technology policy as well as a method to improve information on this area is emphasized.

Certain obligatory clauses are required by the Code in all contracts in regard to naming the parties, their relationship, defining the technology to be transferred, and the manner in which such will be done, as well as assigning a value to the transfer and a fixed-time period.<sup>11</sup> Moreover, the Code states royalties may be paid for intangible technological contributions if previously authorized by the competent body; however, such technological contributions may not be computed as capital contributions, and if made between affiliated companies, royalties may not be paid, nor deducted for tax purposes.<sup>12</sup>

In addition to the aforementioned rules, there are prohibitions against the use of certain restrictive clauses which limit the actions of the licensee. Such prohibited clauses generally require the obligatory acquisition of capital goods, intermediate products, raw materials or other technologies from the licensor at prices above international standards, reserve the right to fix sale or resale prices of the products produced through the use of the licensed good, or obligate the transfer of inventions or improvements. Moreover, limitations on the use of other technologies, or on the exportation of products made under the technology,

patent or trademark in question, restrictions on the volume or structure of production, obligations to use home office personnel permanently, requirements of payment for unused patents or trademarks, and similar type clauses are prohibited.<sup>13</sup> Submission to foreign laws or jurisdictions is also forbidden.<sup>14</sup>

### Application

The practical application of the aforementioned legal framework has been quite uneven, both between Andean countries and within Peru. The latter has depended on the change in attitude in government and on the kind of advice the licensors and licensees have been able to obtain.

As already mentioned, in mid-1977 CONITE replaced ITINTEC as the governmental body in charge of implementing this legal framework. In spite of the limited amount of time and experience of the practitioners in dealing with CONITE, it can be affirmed that this body has shown itself to be more flexible and less restrictive than ITINTEC, as well as quicker in giving approval to these contracts.

To evaluate the contracts CONITE requires the parties to fill out forms furnishing basic quantitative data i.e., expected sales volumes, imported components, etc. It should be noted that foreign patents and trademarks must be registered with ITINTEC before they are licensed in Peru. Based on the data thus presented, CONITE approves the contract or informs of any objections it has. In the latter case, CONITE points out specifically which are the clauses of the contract it does not accept. After licensor and licensee negotiate such clauses, between themselves and with CONITE as well, amendments to the contract or a new contract may be submitted. If not satisfied with CONITE's decision, the parties may file an appeal and thereafter go to court.<sup>15</sup> So far, no cases of this kind have been taken to court.

Since in the evaluation of a contract there are many subjective aspects, it is important to note that many points are resolved through direct negotiation with CONITE. For instance, it is a usual practice for the contracting parties to make high demands in order to later obtain a reasonable royalty.

Regarding royalties, in the past ITINTEC had adopted as a general rule certain guidelines for trademarks (maximum 1% gross) and technology (maximum 5% gross), although there were some variations. Currently, the amounts of payments authorized are, in general, greater than those authorized by ITINTEC; however, such amounts do not vary significantly. CONITE is now authorizing an average royalty of 2% gross for trademarks and 5% gross for technology and patents. If the technology or trademark will be used to manufacture a new product thus reducing imports or to increase exports thereby bringing foreign currency to Peru, a higher royalty can be obtained. It should be noted that the above royalty rates are usually authorized on a gross basis, that is, before deducting income taxes applicable to the licensor; however, sales tax applicable to the licensee are deducted before computing the rate. There are no published guidelines.

Clauses providing for minimum or guaranteed royalties are not allowed, but disclosure fees are some-

times accepted if there are valuable elements and information transferred at the beginning of the contract.

In the case of car franchise agreements for example, CONITE has allowed 3% on net invoices plus US\$1.00 for each car rental, whether on leasing or transit system. In the case of hotel franchising, 7% on profits plus 2½% on gross sales has been authorized.

### Semiannual Preference

Following ITINTEC's practice, CONITE prefers to authorize royalty payments semiannually, although quarterly payments are eventually allowed. Interest for delay in making the payment is not authorized unless the delay is due to the licensee's negligence or bad faith.

In connection with pricing, it should be noted that sometimes the licensor is faced with a somewhat odd problem regarding the licensee. Indeed, some licensees demand an overpricing so as to evade in that way the local foreign currency restrictions, as well as their tax obligations. It is also true, however, that in some instances licensees have gone to the authorities to seek their help in reducing the rates.

Regarding the term of the contracts, usually five years is the maximum period allowed. Contracts providing a fixed term but including unlimited renewals of the same are construed as indefinite term contracts and therefore are not allowed.

Also, following ITINTEC's practice, CONITE will not approve clauses whereby the licensee is obliged to cease in the use of the licensed technology upon termination of the contract. The rationale of this policy is that such clauses are considered as exceeding the life of the contract and as a way of precluding an effective transfer of technology.

As noted, the Code<sup>16</sup> states that intangible technological contributions may not be computed as capital contributions; and if they are made by the parent or an affiliated company, royalties may not be paid, nor deducted for tax purposes. This provision has posed several practical problems. "Intangible technological contributions" have not been defined by the Code. Thus, for ITINTEC it encompassed technology, patents and trademarks. However, for CONITE, it does not include trademarks since they contain no technological contribution in themselves. This interpretation is also supported by the location of this provision in the Code, it follows the restrictions regarding technology, and the provision regarding trademarks<sup>17</sup> comes several articles after. Therefore, the payment of trademark royalties by affiliates is now authorized.

Another problem in the implementation of this article occurs with respect to "foreign" enterprises which become "mixed" companies. The prohibition of paying royalties is referred to "Foreign" enterprises which are expressly defined by the Code.<sup>18</sup> Thus, companies classified as "mixed" or "national" should not be precluded from paying royalties to the parent company of their foreign shareholder, provided the same do not hold more than 49% control of the local company. This interpretation has been recently admitted by CONITE. Thus, this is an additional benefit which foreign companies can now derive from becoming mixed companies.<sup>19</sup>

Another practical problem posed by this provision is the fact that the Code does not define "parent company" or "affiliated corporation." For practical purposes, CONITE considers as "parent company" any entity which owns or controls 50% or more of the equity of another company, the latter being considered as an "affiliated corporation." Due to the subjectivity involved in the application of this operational definition, several proposals are currently being considered in order to adopt an official definition based on more technical and objective criteria.

### Prohibition

As already indicated, the Code also prohibits certain restrictive clauses which in practice are different than what they appear to be in the letter of the law. For instance, it should be noted that the Code has not defined technology. Thus, one could wonder if the term is referred only to product technology or if it is also aimed at including process technology, technical assistance, management contracts, and know-how in general. In ITINTEC's practice the term technology was construed in its most ample meaning, excluding only "technical services." These were considered as different from other forms of technology inasmuch technical services are usually referred to as sporadic and brief activities which are remunerated with a single flat payment plus reimbursement of expenses. In technology transfers, on the other hand, the services are more permanent and continuous, and the form of payment is quite different. Thus, contracts for technical services were considered as not bound by the Code. CONITE will apparently follow the same policy considering technology in its broad sense, and excluding only technical services.<sup>20</sup>

Since the Code makes reference to "foreign technology," this has been construed by some counsel as allowing local payments for technology by a local company to another local company, a subsidiary of a foreign corporation, and the subsequent remittance of such payments in the form of dividends. This obviously forced interpretation has now been rejected by CONITE but it is still totally unable to detect cases in which so is done.

In general, CONITE is quite limited to realize any fiscalization activities. It is mostly a passive agency which acts upon request to decide on the contracts which are submitted to it. It has been only quite recently that CONITE obliged a company to bring back some dividends unduly remitted abroad.<sup>21</sup> This appears to be the first case in which CONITE takes an active fiscalization role.

Thus, in practice many mechanisms have been devised to successfully circumvent the Code's restrictiveness. "Gentlemen's agreements," manufacturing-and-obligatory-sale contracts, and several other arrangements, have become usual ways to successfully circumvent the Code's provisions. In fact, the world exists in two parts — that known and controlled by the authorities, and the peripheral agreements. In effect, the real authority of CONITE is almost reduced to determining the amount of remittable payments. All other provisions are often circumvented. In practice, it appears that their main worth resides in granting a

better bargaining position to those licensees which deal at arm's length with their licensors.

## TAXATION AND REMITTANCE OF ROYALTIES

Peruvian law<sup>22</sup> defines royalty as any compensation, in cash or kind, originating from a transfer of use or property of rights or other personal goods, provided its amount is established in relation to units of production, sale, exploitation or some other referential index.

Expenses incurred in producing or collecting them are deductible for tax purposes, and royalty beneficiaries domiciled abroad who habitually incur in R&D expenditures may also deduct 5% from their gross royalty.<sup>23</sup>

Royalties are subject to the following tax rates.<sup>24</sup>

Up to	from	S/.		
	100,001	to	100,000	20%
"	500,001	"	500,000	30%
"	50,000,001	"	50,000,000	35%
"	100,000,001	"	100,000,000	40%
"	500,000,001	"	500,000,000	45%
"	1,000,000,001	"	1,000,000,000	50%
			and more	55%

NOTE: US \$1.00 = 186 soles  
November, 1978

The above tax rates are on a yearly basis, thus if payments are made in several installments during the year, the cumulative tax has to be recalculated taking into account the amounts already remitted during the fiscal year. On the balance there is a 30% tax.

All taxes must be withheld by licensee and paid to the government within the first 15 days of the month following that in which payment was made. Licensee is allowed to deduct, for purposes of his own income tax, a maximum royalty of 0.75% of his gross sales.

Technical assistance fees paid abroad from Peru are considered Peruvian source income, unless services are exclusively rendered abroad.<sup>25</sup> The law establishes, without admitting proof to the contrary, that in the case of non-domiciled juridical persons 70% of the gross income they derive from technical assistance constitutes taxable income, in the case of individuals the percentage is 60%.<sup>26</sup> The tax rate applied on said taxable bases amounts to 40%.<sup>27</sup>

The licensee is also obliged to withhold and pay the tax and is not allowed to deduct as an expense for tax purposes more than 1% of the income generated or 3% of the investments made in connection with the assistance.<sup>28</sup>

### Greatest Complaint

Probably the greatest complaint foreigners had in connection with technology transfers and patent and trademark licensing was referred to the excessive red tape required to get authorization to remit abroad royalties for contracts which had been duly approved previously. Fortunately, the foreign exchange system has now been substantially liberalized.<sup>29</sup>

Under the new system the Central Reserve Bank is in charge of regulating the foreign exchange market in Peru. The bank has in turn delegated all authority to regulate royalty payments abroad to CONITE, which has established a much simpler procedure for remittals

abroad.<sup>30</sup> Now, payments can be made through any commercial bank with the mere presentation of basically the approved contract and the licensees' certification of the accrued royalties and tax payments. Verification is made after remittal, not before as used to be the case. In this way payment of royalties abroad has been greatly expedited.

### NOTES

1. Contained in Supreme Decree N°001-71-IC/DS, Chapter V in Normas Legales Vol. 59 at 74 (1971).
2. Contained in the Andean Code for Foreign Investment. (Decision 24, as amended by Decisions 37, 37A, 103 and 109 of the Andean Pact) in Force in Peru through Decree Laws 18900 and 21826, in Normas Legales Vol. 60 at 321 (1971) and Vol. 83 at 334 (1977).
3. Mostly contained in Supreme Decree 287-68-HC (Income Tax Code) and Decree Law 21953 (Royalty Remittances) in Normas Legales Vol. 51 at 404 (1968) and Vol. 86 at 249 (1977).
4. CONITE was created by Decree Law 21501, regulated by Supreme Decree 190-76-EF, in Normas Legales Vol. 79 at 355 (1976) and Vol. 81 at 349 (1976).
5. See Fn. 1 supra.
6. See annex 1.
7. See Fn. 2 supra.
8. For a study of the practical implementation of the Code see R. Danino, *The Andean Code After Five Years*, Vol. VIII N°3 Lawyer of the Americas, Miami (Oct. '76)
9. See Decree Law 21170, in Normas Legales Vol. 75 at 257 (1975) and Vol. 81 at 349 (1976).
10. Art. 18, Code.
11. Art. 19, Code.
12. Art. 21, Code.
13. Arts. 20 and 25, Code.
14. Art. 51, Code.
15. Art. 8, Supreme Decree N°190-76-EF, in Normas Legales Vol. 81 at 349 (1976).
16. Art. 21, Code.
17. Art. 25, Code.
18. For the Code's definitions of foreign, mixed and national enterprises see Annex 2.
19. Chapter II of the Code establishes that foreign companies which become mixed enterprises are entitled to benefit from ANCOM's trade liberalization program which by 1985 will allow marketing of products within the Andean countries free from all trade tariffs or barriers.
20. See ANCOM's Decision 84 (Bases For Subregional Technology) which contains a definition of technology for the purposes of said Decision.
21. See "Diario Oficial El Peruano" p.1, February 21, 1978.
22. Art. 26, Supreme Decree 287-68-HC (Tax Code). See note 3 supra.
23. Art. 37, Tax Code.
24. Art. 1, Decree Law 17580 Normas Legales Vol. 53 at 389 (1969) and Art. 60, Tax Code.
25. Art. 11 (E), Tax Code and Art. 8, Supreme Decree 015-69-HC.
26. Art. 49, Tax Code as amended by Art. 7, Decree Law 18150, in Vol. 53 at 68 (1969).
27. Art. 61 (F) Tax Code, as amended by Art. 2 of Decree Law 17376, in Normas Legales Vol. 53 at 52 (1969).
28. Art. 24, Supreme Decree 015-69-HC. See note 26 supra.
29. Decree Law 21953 (October, 1977), in Vol. 86 at 249 (1977).
30. Resolucion CONITE 1014-77-NG-EF/75 of December 12, 1977, in "Diario Oficial El Peruano" January 10, 1978.

## ANNEX 1

### Andean Foreign Investment Code

**Article 18.** All contracts on the importation of technology and on patents and trademarks must be examined and submitted for the approval of the competent authority of the member country, which must appraise the effective contribution of the goods incorporating the technology, or other specific forms of measuring the effects of the imported technology.

**Article 19.** Contracts on importation of technology must contain, at least, clauses on the following subjects:

- (a) Identification of the terms of the transfer of technology;
- (b) Contractual value of each of the elements concerned in the transfer of technology, expressed in a form similar to

that followed in the registration of direct foreign investments; and

(c) Determination of the time period involved.

**Article 20.** Member Countries shall not authorize the conclusion of contracts for the transfer of foreign technology or patents which contain:

(a) Clauses by virtue of which the furnishing of technology imposes the obligation for the recipient country or enterprise to acquire from a specific source capital goods, intermediate products, raw materials, and other technologies or of permanently employing personnel indicated by the enterprises which supplies the technology. In exceptional cases, the recipient country may accept clauses of this nature for the acquisition of capital goods, intermediate products or raw materials, provided that their price corresponds to current levels in the international market;

(b) Clauses pursuant to which the enterprise selling the technology reserves the right to fix the sale or resale prices of the products manufactured on the basis of the technology;

(c) Clauses that contain restrictions regarding the volume and structure of production;

(d) Clauses that prohibit the use of competitive technologies;

(e) Clauses that establish a full or partial purchase option in favor of the supplier of the technology;

(f) Clauses that obligate the purchaser of technology to transfer to the supplier the inventions or improvements that may be obtained through the use of the technology;

(g) Clauses that require payment of royalties to the owners of patents for patents which are not used; and

(h) Other clauses with equivalent effects.

Save in exceptional cases, duly appraised by the competent authority of the recipient country, no clauses shall be accepted in which exportation of the products manufactured on the basis of the technology is prohibited or limited in any way.

In no case shall clauses of this nature be accepted in connection with subregional trade or the exportation of similar products to third countries.

**Article 21.** Intangible technological contributions shall grant the right to payment of royalties, upon authorization by the competent national authority, but they may not be computed as capital contributions.

When these contributions are furnished to a foreign enterprise by its parent company or by another affiliate thereof, no payment of royalties shall be authorized and no deductions will be allowed in this connection for tax purposes.

**Article 22.** National authorities will undertake a continuous and systematic task of identification of available technologies on the world market for the various industrial fields, in order to have available the most favorable and advisable alternative solutions for the economic conditions of the subregion, and will forward the results of their work to the Board. This action will be carried on in coordination with the action adopted under Chapter V of this regime in connection with the production of national or subregional technology.

**Article 23.** Before November 30, 1972, the Commission, upon the recommendation of the Board, will approve a program directed toward promoting and protecting the production of subregional technology, as well as the adaptation and assimilation of existing technologies.

This program shall contain, among other elements:

(a) Special tax or other benefits to encourage the produc-

tion of technology and especially that connected with the intensive use of input items of subregional origin or those designed to make efficient use of subregional productive factors;

(b) Development of exports to third countries of products manufactured on the basis of subregional technology; and

(c) Channeling of domestic savings toward the establishment of subregional or national research and development centers.

**Article 24.** The governments of the Member Countries shall give preference in their purchases to products that include technology of subregional origin in such forms as the Commission may consider advisable. On the recommendation of the Board, the Commission may propose to the Member Countries the establishment of charges on products which use trademarks of foreign origin for which royalties have to be paid, when generally known or easily accessible technology is used in their production.

**Article 25.** Licensing contracts for the utilization of trademarks of foreign origin in the territory of the Member Countries may not contain certain restrictive clauses such as:

(a) Prohibition or limitation on the exportation of sale in certain countries of the products manufactured under the trademark concerned, or similar products;

(b) Obligation to use raw materials, intermediate goods, and equipment supplied by the owner of the trademark or his affiliates. In exceptional cases, the recipient country may accept clauses of this nature provided the prices correspond to current levels on the international market;

(c) Fixing of sale or resale prices of the products manufactured under the trademark;

(d) Obligation to pay royalties to the owner of the trademark for unused trademarks;

(e) Obligation permanently to employ personnel supplied or indicated by the owner of the trademark; and

(f) Other obligations of equivalent effect.

## ANNEX 2

### Andean Code Article 1

**National Enterprise:** An enterprise organized in the recipient country, more than 80% of whose capital belongs to national investors, provided that in the opinion of the competent national authority, that proportion is reflected in the technical, financial, administrative, and commercial management of the enterprise.

**Mixed Enterprise:** An enterprise organized in the recipient country and whose capital belongs to national investors in a proportion which may fluctuate between 51% and 80%, provided that in the opinion of the appropriate national authority, that proportion is reflected in the technical, financial, administrative, and commercial management of the enterprise.

**Foreign Enterprise:** An enterprise whose capital is in the hands of national investors amounts to less than 51% or, if the percentage is higher, it is not reflected, in the opinion of the proper national authority, in the technical, financial, administrative, and commercial management of the enterprise.