Update on Licensing in Argentina

Discussion of important aspects of two-year-old law, which is proving to be more realistic than predecessor

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Time has now passed since the very restrictive Argentina Law 20794, that ruled the transference of technology to our country was derogated. It was replaced by Law 21617, now in force, that was enacted in October 1977.

Since then, the National Registry of License Agreements of Transference of Technology (National Registry, from now on), had a double task. It had to straighten up the almost paralyzed proceedings of more than 1500 files and at the same time revert the previous restrictive criterions of the prior authorities and of the old law. A lot has been done since then. The application of the new law is a more realistic approach to the transference of technology question than before.

SCOPE OF APPLICATION

Almost every juridical act, that has as an object the transference of license of technology or industrial property rights, from a person domiciled abroad in favor of a person domiciled in Argentina must be filed at the National Registry (Art. 1). It does not matter whether it is onerous or gratuitous (Art. 3).

I say *almost* every act because the law expressly excludes some (Art. 4):

a—Agreements executed by the Armed or Security Forces, or by organisms related to national defense, whenever the National Executive Power decrees that they qualify as military secrets.

b—The supply of technology, in work lease contracts, provided by the owner of the construction to the contractor to enable him to execute the work.

c—License agreements for use or reproduction of copyrights or related rights even when it is included the use of a name, pseudonym, mark, sign, logo or any other determined sign that may help to identify the holders of said rights and to enable the necessary control of the reproductions.

RECORDAL OF THE ACTS

The law also establishes another category of acts that, though they do not have to be recorded, still fall under its scope. They are mentioned in Art. 5 and are the following:

a—Supply of drawings, catalogs or other written information acquired with machinery or equipments.

b—Gratuitous assignment, cession or license of technology concluded by the parties mentioned in Art. 9 of this law, except gratuitous acts providing basic and detailed engineering or which may be contained in an agreement.

Art. 9 refers to the so-called "related corporations" to which we shall come back later.

Lastly, we have the acts that must be filed at the National Registry. For these, there are still two types of recordals: the automatic recordal and the ordinary one. This last great majority of acts which are thoroughly examined by the authorities.

The acts that are recorded automatically, and thus are exempted from a previous examination are those that have as objectives (Art. 6):

a—Entry to the country of foreign technicians for the purpose of installing and operating factories or machinery or effecting repairs.

b—Assistance in repairs or emergencies.

c—Gratuitous assignment of license of trademarks.

d—Supply of basic or detailed engineering required for the installation and operation of machinery or equipments acquired abroad, always provided that said supply does not imply extra payments.

After recordal the authorities may require the parties to furnish more information about the considerations involved in the act, in order to determine if the law was violated. I do not know of any case in which this information was required.

It is not quite true that the acts subject to automatic recordal are exempted of examination. The recently enacted Decree n° 1885 that rules Law 21617 establishes in its Art. 5, that:

> The applications for automatic recordals mentioned in Art. 6 of the law shall be filed at the Authority of Application, though the Registry, with elements that reveal the juridical act, enclosing a sworn statement that expresses concisely and briefly the need of the foreign technology. In these cases, after the fulfilment of the considerations and within 90 days of same, the Authority of Application shall be informed what was the result obtained and the definitive cost of the technology, if there is, filing the antecedents that permit the evaluation of the recorded act in order to determine if same was adjusted to the market practices and to the law.

Moreover, the authorities require that in the act the foreign licensor declares he knows the existence of Law 21617 and establishes a legal address in our country. Also, two certified copies of the act's instrument and a form, issued by the Registry, must be filed. This form to be filed by any of the parties requires certain information, such as the name and address of the parties, characteristics of the technology or trademarks transferred and amounts of money to be paid by the licensee.

We can see that at least there is an examination to

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determine if these requirements are met. If not, the application shall not be even received by the Registry.

Lastly, if this type of act contains any of the clauses mentioned in Art. 10, which we shall later see, it shall be considered as not written.

All the acts not included in the mentioned categories, must be recorded and examined by the authorities. I shall now refer to the recordal procedure of these acts.

FILING FORMALITIES—FORMS

The formalities to comply with the filing of the acts are established in Decree 1885 that rules Law 21617. The application for approval consists of:

1. A form in which certain information must be given: name and address of both parties and if there is an economic relationship between them, description of the technology, registration and term of duration of the industrial property rights, technical justification for the incorporation of the technology and previous alternatives considered, etc. Also the licensee must mention the personnel employed during the previous year and the salaries paid, the five products most sold during said period and amount of sales, royalties to be paid, estimation of the quantity of licensed products to be manufactured, exports of same, etc. Complementary information may be required by the authorities within 20 days of the application date.

2. One original document of the act. The signature of the parties must be duly legalized and legal capacity to execute the document on behalf of the corporation proven.

3. Two certified copies of the document just mentioned.

4. Translation into Spanish of the legalizations and certifications, and of any other documents in a foreign language.

Within 15 days from the filing date the authorities have to notify the parties of any deficiency in the information or documents enclosed. If this is not done, it shall be presumed that same are correct (Art. 18).

No term has been established for filing the elements necessary to comply with the observations. It is convenient to ask the authorities to suspend the procedures for a reasonable time, 30 or 60 days, in order to do so.

Upon filing the new elements the Registry has then another term of 15 days to make any observation to the parties (Decree 1885, Art. 7).

The acts must be filed at the National Registry within 30 running days from execution. If so, the act when approved shall be considered valid since this date. If the act is filed after the 30 days from execution, it shall be considered valid since date of approval (Art. 15).

Once the application is formally correct the act is then legally, technically and economically examined. The National Registry has a group of professionals that includes lawyers, economists, engineers and chemists, who are in charge of this task.

Legal Analysis

Clauses that must be included

The law establishes that certain clauses must be included by the parties in the act (Art. 7):

a-Identification of the consideration to be given by the supplier of the technology or trademarks.
b-Identification of the consideration to be given by the recipient of the technology or trademarks. The consideration corresponding to each one of the supplier must be determined as approximately as possible.
c-Determination of the duration.
d-Determination of the technical aims pursued by the recipient through the transference of technology.
e-Declaration by the supplier of technology of his knowledge of the present law.

Clauses that may cause rejection of recordal

Following the same principles of the previous two laws on this matter, the law establishes that the inclusion of certain clauses in the act may cause rejection of recordal. The clauses are those "having one or more of the following characteristics" (Art.10):

Whenever they prohibit or limit exports by the recipient, except to such countries where the supplier himself produces or has granted exclusive license for production, use or sale.

While it is an aim of the authorities to increase the exports of the licensed product, it has been understood that the licensee cannot be permitted to violate the exclusive licenses granted by the licensor abroad. The proof of their existence is very simple. Certified copies of the agreements or an affidavit certified by Notary Public will suffice.

Whenever the recipient is obliged to grant license for the innovations, improvements or developments that could be obtained with respect to the transferred technology, except when a reciprocity clause is included.

The principle is that if the licensee has developed any improvement through the application of the licensed technology, he is the sole owner and as such he may dispose of it at will, though he may grant the licensor a priority if he decides to license.

Whenever the recipient is not granted rights on improvements relating to the technology transferred which the supplier develops during the duration of the juridical act.

The idea is that the licencee must be up-to-date during the duration of the agreement. It seems difficult to obtain an approval for an increase in the royalties, when such continuous flow is agreed upon.

When they exempt the supplier from liability in front of the recipient or in regard to possible lawsuits brought by third parties on the ground of flaws or defects that are inherent in the services to be rendered by the supplier under the mentioned agreement. Said liability shall comprise that resulting from an eventual violation of third parties' industrial property rights, as well as that arising from the enforcement of the ordinary regulations as a consequence of damages suffered by the recipient or third parties. Said damage must be the direct or immediate result of the correct use of the technology transferred or the use made following the instructions given by the supplier, if it were the case.

This clause repeats what is already law in our country according to our Civil Code. Though the Registry has accepted that the responsibility of the licensor in what respects to third parties be limited, for example, to a certain percentage of the royalties due to him.

A different problem is the licensor's responsibility toward the licensee. If the licensee has incurred big expenses to start the operation, set up a plant for example, and then he cannot use it because a third party has a patent, or the technology is no good, then the licensor according to the National Registry must be fully responsible.

Whenever acquisition of raw material, intermediate products or capital goods from a determined origin or source of supply is rendered compulsory.

This is the well known tying clause and unless there are very good reasons, it will not be accepted.

Whenever sale prices to wholesalers, retailers, public or to the supplier of technology or trademarks are established; or whenever unequal conditions for the sale of equivalent goods or services are imposed to third parties.

The licensee is the owner of the technology and as such has the absolute right to do with it what he likes, with no intervention of the licensor. This has been the point of view of the National Registry, and I believe it is not correct. One thing is when there is a transference and another when it is merely a license. In this last case the licensor is still the owner of the technology. If this may be arguable with respect to technology, it is not in what respects to industrial property rights. If not, a license will be the same as an expropriation.

Whenever the supplier is allowed to control or regulate the recipient's production or commercialization beyond what is necessary for the protection of his licensed rights.

The same comments just made are applicable here. If there is not a transference but a license to use, the owner may reserve for himself what has not been exclusively authorized to a third party.

The clause refers to the case in which the licensee is obliged to exploit the patent in order to prevent its lapsing. This is a defense of the right.

Also, the clause obliging the licensee to produce minimum quantities has been accepted by the authorities. Through it the licensor protects also his business.

Whenever use or development by the recipient of his own technology is limited.

This clause is also originated in the principle that the licensee is the owner of the technology he developes. It is not clear, though, if the licensee can be obliged by the licensor to use his own technology together with the one transferred.

Whenever causes which may originate by interpretation or performance of the act are submitted for resolution according to legislation and jurisdiction other than Argentine ones and the competent Argentine Courts, without implying that the recipient is unable to sue the supplier before the Courts in the country wherein the supplier is domiciled.

The authorities are, and have been very strict in the application of this clause. I don't know of any act in which foreign jurisdiction or legislation have been accepted.

Whenever the act includes clauses forbidding the use of competitive technology, without a justified reason. To this effect, the Control Agency must take into account the nature and characteristics of the technology, the use of which is forbidden, and the possible damage that the supplier of technology may suffer by the absence of said clauses.

If the acts exempted from compulsory recordal or recordal provided by Art. 5 and 6 contain any of the clauses enumerated in this article, these shall be considered as not written, unless any of the parties requests express approval of same.

Notwithstanding what is expressed hereinbefore, in case the Control Agency should consider that the technology to be transferred is detrimental to the country, the Control Agency should expressly declare this fact, rejecting recordal.

The point is here what shall be considered a justified reason for forbidding the use of competitive technology. Will it be enough to say that the licensor does not want to be involved, together with third parties, in something he cannot control and where if there is a failure his image may be damaged? I don't know of acts in which this clause was under discussion.

Implicit clauses

Since I am speaking about the clauses of the act it is convenient to refer now to the "implicit clauses." The so-called "implicit clauses" are the guaranties that the law considers as given by the parties, although they are not agreed on by them. Moreover, if the parties agree on a clause that is contrary to the implicit ones, it is considered as not written, unless it is expressly approved by the authorities.

The clauses are (Art. 8):

The supplier guarantees that the technology to be transferred shall ensure the aims pursued by the recipient upon acquisition of same in accordance with the scope described in the juridical act according to item d) of the preceding article.

As we saw before, the aims pursued by the licensee through the acquisition of the technology must be determined. Here the law considers that the licensor guarantees that the technology is good for what it was acquired.

The supplier of technology will provide directly or indirectly adequate training for assimilation and use of the technology, if such training were necessary.

Though the law says nothing about it, it is proper to believe that an extra payment could be established for this training. Of course the same cannot be so high as to annul the guaranty.

When the recipient of technology or trademarks has no other alternative than to acquire capital goods, inputs, raw material and/or spare parts from the supplier of technology or marks, or than to sell his production to the supplier, the purchase or sale price will correspond to that prevailing on the international market for such goods or products. The Control Agency is competent to establish said prices whenever the same are not fixed on the international market.

It is not necessary that a clause establishes that the licensee shall buy any goods from the licensor. The guaranty is alive whenever the acquisition occurs.

The recipient shall not disclose technical secrets specified as such in the juridical act during the established term which can exceed the duration of the agreement.

The old law did not accept the secrecy clause once the agreement term lapsed. The new law changes that criterion and now there is no time limit for the secrecy that may be imposed to the licensee after expiration of the act.

In acts including use of trademarks or names of the supplier or similar forms of identification before clientele, the recipient shall maintain the quality level of products or services specified in the juridical act when said products or services are identified with such marks or names.

This is an important defense of the licensor and of its trademark. I do not know of any conflict originated in the quality of the licensed product. What will the product be compared with in such a case? The products manufactured by the licensor, those manufactured former licensee?

Finally, Art. 8, establishes that the authorities may require the parties to include any of these clauses in the act.

TECHNICAL ANALYSIS

The act's approval may be denied if the technology involved is "proved to be obsolete," "evidently in the public domain" and "freely available in the country" (Art. 10, a and b). The law considers that what is not protected by secret or by industrial property rights is in the public domain. And a "freely available technology" is one to which any interested person may have access in reasonable conditions.

The term "obsolete" is not defined by the law and this may bring some difficulties with its interpretation.

Anyway, it is clear that the authorities, if they deny an application based in this, will have to prove the technology is obsolete, and if so, how it is in the public

domain. And they will have to inform, as a complement, where the local licensee can get the same technology in the country.

ECONOMIC ANALYSIS

Price

The approval may be denied "whenever the consideration agreed bears no relation with the technology or trademarks transferred and with the benefits directly or indirectly to be obtained through their use" (Art. 10 d).

The law considers that such relation does not exist, whenever:

1. The acts consist in the license for use of trademarks with no supply of technology and payment in favor of the supplier or on his account, exceeds 1% of the net value of sales of the products or services that bear said trademarks.
2. In case of technology related to the terminal automobile industry, or of its parts, according to the definition of Law 19135 and payment in favor of the supplier or on his account exceeds 2% of the net value of sales of products manufactured with such technology.
3. In other cases, when payment in favor of the supplier or on his account exceed 5% of the net value of sales of the products manufactured or services rendered by with technology transferred.

An important change with respect to the previous law is that the use of trademarks can be licensed and royalties paid for said use. Also, I must note that there is no limit for the royalties to be paid. The royalties may be superior to the ones just mentioned but the parties must prove that they are not expensive, unjustified. For example, the authorities would accept a royalty superior to 1% when the licensed trademark is an internationally well-known one. Another fact that would cause the acceptance of higher royalties is when the licensor promotes the exports of the licensed product.

Net Value

The law defines net value of sales as the "invoice value at the door of the plant, after deducting discounts, bonuses and reimbursements, internal taxes and taxes levied upon sale and those that may be substituted for or serve to complement them in the future, as any other tax that may subsequently be created regarding the same taxable items." (Art. 11)

It is interesting to add that it has been accepted that a small percentage of the value of sales be spent by the licensee in the advertisement of the licensed product. This consideration is not considered part of the price, it is not considered a royalty.

On June 7, 1979, (after this article had been already sent for publication) the Technical Undersecretary of State of the Secretary of State of Industrial Development issued Resolution No. 58 which in its Article 1 states: "The juridical acts ruled by Law 21.617 that are not included in its article 9°, in which the royalties agreed between independent parties do not overcome the percentages established in article 10° d), paragraphs 1, 2 and 3 of the mentioned Law 21.617, shall not deserve objections for that reason".

This means that, if there is technology or an authorization for the use of a trademark the parties are absolutely free to establish the price any time that the percentages established in article 10° are not overcome. This Resolution is not applicable to the so-called related corporations. It is a very important step taken by the authorities. It recognizes, as we can read in the whereas of the Resolution, that it is presumed that in an agreement between nonrelated parties there has been independent willingness and freedom to agree, and that this presupposes that the considerations established in the agreement keep a relation of equilibrium between them.

Duration

The term of duration of the act cannot exceed that of the licensed industrial property right, or its eventual renewals (Art. 13). This last is applicable to industrial models and designs, and to trademarks.

In what respects to nonpatented "knowledge," the duration shall not exceed the term of its "foreseeable obsolescence, which is presumed to be of five years, except evidence on the contrary" (Art. 13).

Again, we come to the word "obsolescense" and to the difficulty of its interpretation. I believe it shall have to be combined with the "public domain" and "freely-available" status mentioned before, to arrive at a realistic solution.

RESOLUTION; APPEAL

The National Registry has a term of 90 running days, as from the filing date, to examine the act and issue the corresponding resolution. In case there were formal deficiencies to correct, the term shall start when the same are corrected (Art. 19).

If the authorities have any observations with respect to the act they shall notify the parties. They shall have a term of 15 running days to answer them or to modify the act accordingly. Any party may ask for a suspension of the procedures if they need further time to answer, or to adequate the act (Art. 20). When this is done, the National Registry has 30 running days to issue the corresponding resolution (Art. 21).

The practice is a little different from the procedure established by the law. The observations of the Registry may be answered by the parties, and again these comments may be answered back by the authorities. In fact, everything is done in order to avoid the denial of the registration.

But of course, it may happen that the National Registry denies the registration. In that case any party may appeal this resolution. The appeal may be taken directly at the Court of Appeals within 20 running days of the notification of the resolution (Art. 33) or administratively according to what is established in the Law on Administrative Proceedings. After the administrative instance, it is always possible to appeal an adverse decision at the Court.

APPROVAL; LACK OF APPROVAL

When the act is approved by the authorities the National Registry shall return the parties the original

document of the act, and one of the copies, with the corresponding note of approval (Art. 16 Decree 1885).

The parties may also ask for a certificate of approval to be filed at the Central Bank for the remittance of royalties abroad (Art. 17 Decree 1885).

If the act is not approved, same shall be considered null to all legal effects (Art. 24). This will also happen if the registration lapses effects (Art. 24). This will also happen if the registration lapses or is canceled.

It is important to file in time, within 30 days of its execution, not only, as we mentioned before because the validity, when approved is brought back to the date of execution.

When the act is filed within 30 days of its execution and the application for approval is denied, in aspects related only to technology not protected by industrial property rights, it will be null and void with the exception of the clauses that refer to secrecy, restoration of technical documents, and those prohibiting the subsequent use of the furnished technology (Art. 24).

The act must have "principle of execution" within a term to be established by the authorities, a term that cannot exceed two years from its approval, or the registration shall automatically lapse.

"Principle of execution" in our juridical language means perfection of the act. This occurs when any of the parties starts to perform the act — for example, if a payment is made, technology sent, etc. So the parties must start to perform within two years of approval, according to the law (Art. 26).

But this is not exactly the interpretation of the authorities. They think that "principle of execution," means principle of exploitation of the technology or use of the industrial property rights by the licensee. They have copied the "exploitation" idea of the patent system.

In this sense they issue a "Sworn Declaration Form" where the licensee must report concerning the exploitation of the agreement. This form must be filed every year. If the criterion does not change, the renewal of the approval certificate is not granted till the filing of this form is made.

I believe that this interpretation has no basis in the law and it should not be difficult to obtain a correct interpretation at the Court.

The defense argued by the National Registry is that in this way they shall prevent a corporation from acquiring several licenses and then using only one, and thus restricting seriously the competition.

The forbidden acts and thus subject to penalties are (Art. 30):

a-The performing of an act that has not been filed at the National Registry, or that has lapsed because lack of principle of execution or which approval was rejected, or which term has lapsed.
b-When the law is violated by complying with, in an automatic recordal act, a forbidden clause.
c-Public mention of the existence of acts which have not been approved (Art. 27). The law punishes the false invocation of the licensee.
d-To incur in misrepresentation before the National Registry by hiding, concealing or altering the true contents of the act.

If the act is gratuitous, a fine may be imposed to the infringer up to $20.000.000. (Argentine currency). If it is onerous, the fine may be from 1% to 20% of the value of the act. Also, the registration may be canceled.

As we can see, the fines may reach very high levels. I do not know of any case in which a penalty was imposed.

The same appeals we mentioned with respect to the denial resolution can be filed against the imposition of a penalty.

The seal tax *(impuesto de sellos)* that has to be paid on the value (amount) of the agreement must be paid within five days of notification of the approval (Art. 28). Before, same had to be paid within five days of the signature of the act by both parties. This modification is very good because the tax shall be paid on the real value of the act. Before it was paid on a value that could be modified later, or even never exist because of a denial resolution.

The so-called "related corporations" have a different regime in respect to this law. The relation exists when the act is executed between a foreign corporation and a local one that it controls directly or indirectly.

These corporations may execute the acts that fall under Law 21617 but the considerations and conditions stipulated therein must "adjust to the normal practices in the market between independant parties" (Art. 9).

Law 21617 imposed the following:

a-Payment of royalties for the use of trademarks will not be admitted.
b-Payments to be effected by the local corporation — which cannot consist in fixed amounts — will be deemed canceled in annual periods coinciding with the closing of the fiscal year and payment can only be effected after said date.

This last clause was interpretated in a way that does not damage the foreign licensor. A strict interpretation of it means that the debt is borne only once a year, after the closing of the fiscal year. If this is so the Argentine currency could be converted into the foreign one only once a year. In a country with periodical devaluation of the local currency such an interpretation would be of great prejudice to the licensor.

This paragraph has been understood to prohibit the periodical payment of royalties, same has to be done once a year. But the parties may convert the royalties from local to foreign currency once a month, or every two months, etc.

Last year, on September 19, this Article 9 was modified by Law 21.879 that added a paragraph c) that establishes:

c-The payment of fixed amounts shall be admitted with no limit in time for the following considerations:
1. Provision of basic or detailed engineering and of technical services from abroad for the installation, operation or works of maintenance of plants, machinery and equipment.
2. Technical assistance in repairs or emergencies or other ways of technical advice.
3. Training of operative and directive personal.

As we can see, the situation is completely different from that existing three years ago, although it is not an easy task and there is much more to do. The legal regulation of the transference of technology is a new subject for many countries in the world and yet a lot must be learned about it. Some changes should then be expected, and I hope they are to adapt the rules to reality.