

# 14 New Rules in Venezuela

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## 1999 decree gives new rules for importing, using, and exploitation of technology

On January 26, 1999, the Venezuelan Government published Decree No. 727 in the Official Gazette of the Republic of Venezuela No. 34,397, establishing the new guidelines of foreign investments in the country.

As a rule, the authorization for all kinds of contracts that foreign, mixed and national companies, as well as public entities, plan to execute for the importation of technology and for the use and exploitation of patents and trademarks, regardless the forms adopted, that are intended to have effect within Venezuela, is now automatically granted by the Superintendency of Foreign Investments (SIE). If the wording of the agreement does not contain the restrictive clauses mentioned in Decision 120 of the Cartagena Agreement, these clauses are similar to those already in effect for license agreements in Venezuela.

Nevertheless, the requirement of registration before SIE is still in effect, independently of whether or not the contract provides for any payment or compensation.

The new Decree specifies that the following agreements will be submitted for registration before SIE:

1. The license to use of the authorization to exploit trademarks and the distribution of products identified by trademarks that are the property of foreigners.

2. The license to use in the authorization to exploit patents of invention, improvements and industrial models and designs.

3. Those contracts providing technical know-how in the form of plans, diagrams, models, manuals, instructions, formulations, specifications, the education and training of personnel and other forms.

4. Those contracts providing for lease or detail engineering for the execution of installations, the manufacture of products and the undertaking of industrial projects and constructions.

5. Technical assistance in any form and in any sector of business in which provided.

6. Services for the administration and operation of companies in general.

It will be necessary for a parent company that executes a license agreement with its subsidiary in Venezuela to go through a prior authorization and further registration of the agreement before SIE only if the parties agreed on the agreement to cover 5% of the net technological sales of the products object of the contract. That is to say that the payment of royalties between a parent and its subsidiary in Venezuela are now allowed.

They will be understood as technological net sales, the value resulting from the difference between the value of the net sales, as defined in the contract for the licensed products and the F.O.B. value of the raw materials and other basic ingredients supplied by the company providing the necessary technology for the manufacture of same.

The contracts executed between a parent and a subsidiary may not be documented in different applications for the purpose of obtaining greater benefits than those already established. When SIE denies these acts occurring, it may revoke the respective registrations, in the cases where they have been granted.

The parties will file at SIE an original signed copy of the agreement within 60 days following its execution.

The following information must be included in a license agreement:

1. Identity of the contracting parties, with the express indication of their nationality and domicile, as well as that of the intermediaries, if such is the case.

2. Breakdown and description of the technological contribution and the identification of the patents or trademarks object of the contract.

3. Identification of the modalities and conditions for the transfer of technology, of the guarantees that might be applicable in the specific case and the stipulations that the parties propose to follow regarding improvements that are developed during the term of the contract.

4. Contractual value of each of the elements involved in the transfer of technology related to the effects of the authorization, expressed in a similar manner to that contemplated for the registration of direct foreign investments in Decision 120 of the Commission of the Cartagena Agreement and in these regulations.

5. Indication of the term of the contract.

6. Conditions of payment, currency and country of destination.

7. Clauses that are conducive to an effective transfer of technology.

8. Clauses stipulating periods of confidentiality of the technical information revealed are allowed, nevertheless, the term may not exceed a period equal to the term of the contract as from the date of its termination.

Considered as restrictive clauses are those established in Decision 120 of the Commission of the Cartagena Agreement and other laws of the Republic. SIE will not register those contracts containing clauses which do not follow this

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approach. Among these clauses are the following:

1. Clauses by which the supply of technology creates an obligation for the country or receiving company to acquire from a certain state limited access capital goods, intermediate products, raw materials or other technologies or the permanent use of personnel appointed by the enterprise providing such technology. In exceptional cases the receiving country may accept clauses of this nature for the acquisition of capital goods, intermediate products or raw materials provided their prices correspond to current levels in the international market.

2. Clauses in which the company selling technology reserves the right to its sale or resale prices of the products produced with basis on the respective technology.

3. Clauses that contain restrictions in relation to the volume and structure of production.

4. Clauses that prohibit the use of technology from competitors.

5. Clauses that set both purchase option, total or partial, in favor of the technology supplier.

6. Clauses that compel the purchaser of the technology to transfer to the supplier devices or improvements obtained by virtue of the use of such technology.

7. Clauses that compel payment of royalties to the holder of such patents for licensed patents.

8. Prohibition or limitation to export or sell in certain determined countries the products made under the respective trademark, or similar products.

9. The obligation to use raw materials, intermediate goods and equipments supplied by the holder of the trademark or its affiliates. In exceptional cases the receiving country may accept clauses of this nature provided their price corresponds to current levels in the international market.

10. Determination of sale or resale prices of the products made under the trademark.

11. Obligations to pay royalties to the holder of the original trademark.

12. Obligations to use personnel permanently supplied or appointed by the holder of the trademark.

13. Other clauses of equivalent effect.

Except in occasional cases, duly qualified by the competent national entity of the receiving country, no clauses will be accepted when they will limit or prohibit in any manner exportation of the products obtained through the use of the respective technology. In no case will clauses of this nature be admitted in relation to the subregional interchange or in the exportation of similar products to third countries.

The contracts must contain the obligation of the licensee to train the licensee's personnel required in order to make the best use of the technological services contracted, for which they will prepare a training program.

Payments in the form of royalties or other types of compensation arise from the use of trademarks, procedures, patents or industrial models, for a period greater than the term granted by the industrial property law will not be permitted. In this respect, the law grants the exclusive right to use a registered trademark for a period of 15 years from the date of registration. Features of invention, or improvement, of industrial model or design will be issued for five or 10 years at the applicant's option. And patents of inventions, only for five years.

In the event of an administrative or judicial dispute on trademarks, procedures, patents or industrial models, the payment of royalties or a deposit corresponding to the equivalent thereof, will be made or undertaken in accordance with that decided by the administrative or judicial authority with jurisdiction over the dispute.

If the contracts are not registered before SIEC, the royalty payments stipulated in the contract will be suspended, if and the amendments of the contracts will not enter into effect until they have been registered.

Occasional specific service agreements are possible to execute. This kind of contracts will be subject to the subsequent obligation of registration at SIEC within 60 days counted as of the date of being contracted. Likewise, SIEC needs to be notified within 60 days after the

payment is made through the presentation of the vouchers evidencing the transfer and the withholding tax receipts. Occasional specific service includes that for the purpose of attending to or resolving unforeseen situations arising during the activities of the company.

It is also possible to contract without previous authorization consists of specific services other than the occasional. Nevertheless, the obligations of registration does exist at SIEC within 60 days counted as of when contracted. SIEC will also be notified as in the payment of the respective counterbalance within 60 days after it has been made, through the presentation of the vouchers evidencing said transfer and the corresponding payment of taxes.

It is considered as a specific service, other than the occasional, that for the purpose of attending to licensee's situations arising during the course of the activity of the company, of a continuous nature with a duration of up to six months and the counterbalances of which are determined on the basis of fees or tariffs on a basis for calculating different from that of the volume of production or of sale, or other form of establishing royalties. After the lapse of the period here stipulated without having concluded the services contracted to be provided, the respective contracts might be extended, once only, for a period equal to the original term, after notifying the Superintendency of Foreign Investments.

Royalties cannot be calculated as capital contribution of the licensee of a technology to the licensee. Notwithstanding, in cases in which there has been a credit for technological services effectively provided, the company providing the technology contracted might capitalize said results in licensee's company, after approval of the stockholders of the latter and of SIEC.

Such royalties might be paid to the licensee without the need of prior authorization. The company will be obliged to make the payments through the commercial banks and will be obliged to notify SIEC within 60 days of having done so. Depositing for the payment, the vouchers of the transfer

made and the withholding tax receipts.

In the valuation of controversies of

credits derived from foreign direct investments or from the transfer of foreign technology, the

Member Countries will apply the Dispositions of their internal legislation.