Update on Licensing in Argentina

Argentina law corrects damage by former, overly restrictive provisions; details analyzed

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Argentina's conduct with respect to the rules on transfer of technology have been erratic. We had in the last 15 years four different laws that have dealt with this matter. Restrictive law No. 20.494 caused suspension of the flow of technology toward Argentina. Fortunately, in 1981, the damages caused by restrictive policies and regulations were recognized and law No. 22.426 was enacted. This law established a reasonable and realistic treatment. The sensible approach that I shall explain recognizes that parties involved can negotiate freely, and that government cannot replace businessmen in making decisions.

The reaction that took place in our country was logical after the failure of the restrictive prior regimes. It must be said that this failure also took place in Spain, Chile, Ecuador and Venezuela. However, they reacted by liberalizing their laws.

In other countires of Latin America, like Brazil, Mexico, Colombia and Peru, the restrictive laws are permanently violated, and in many cases with the knowledge and consent of the authorities.

The approach to the matter under discussion must be economic and not ideological. When this last happens, and it has happened, technology and investments shall be farther and farther from our countries.

THE ARGENTINE LAW SCOPE OF APPLICATION

Article 10 of Law 22.426 defines the acts that fall within the scope of the law. They are the "onerous juridical acts having as a main or secondary object, the transfer assignment or license of technology or marks by persons domiciled abroad, in favor of natural or juridical, public or private persons domiciled in the country (Argentina), if said acts have effect in the Argentine Republic." The first requisite is then, that the act be onerous. If there is no consideration, if nothing is given to the licensor or assignor, then the act does not fall under this law.

Decree No. 580, which rules the law, establishes that technology is:

- Patents of invention.
- Industrial models and designs.
- Any technical knowledge for the manufacture of a product or for the render of a service.

Also, the act must have effect in Argentina. This means, for example, that the technology or the licensed marks, must be used in the country. Lastly, the licensor or assignor must have its address abroad while the licensee or assignee, must have his in Argentina. It is not a problem of nationality but of domicile.

PRIOR APPROVAL

We now know what kind of acts fall under the law. What happens with these acts? It depends.

There are acts, or agreements, that require the prior approval of the authorities, while others must be filed only for mere informative purposes. In the first group we have the acts executed between a local Argentine corporation and the foreign one that directly or indirectly controls it.

According to the Argentine foreign investments law, such control exists when the foreign corporation owns 49% or more of the capital of the local corporation, or the amount of votes necessary to keep control of it.

These acts or agreements must be submitted to the approval of the authorities. The authority of application of the law is the INTI (Instituto Nacional de Tecnologia Industrial) through the "Registro de los Contratos de Licensia y Transferencia de Tecnologfa."

The law establishes in its Article 5 that approval shall be granted if the considerations and conditions of the agreement concur with the usual market practices between independent entities, and provided that the agreed consideration is in accordance with the technology to be transferred.

There are no forbidden clauses, no obligatory ones and there is no maximum in the amounts to be paid. The agreement shall be examined and the authority will have to answer these questions:

- Would independent parties have executed this agreement?
- Is it a reasonable agreement?

Decree No. 580 gives a further guideline in what respects the price. In its article 30 it says that, "it is presumed that the agreed consideration has a relation with respect to the technology transferred, when it does not go beyond 5% of the net amount of sales of the products manufactured or services rendered with said technology."

This means that an agreement with royalties within 5% would not be rejected for that sole reason. Of course there are exceptions. If there is an agreement that establishes 5% royalties and several other agreements of the same kind of technology establish only a 2% royalty, it is probable that the agreement shall be rejected.

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It is usual that the authorities request the parties to file a copy of the licensor's consolidated balance. The purpose is to determine the relation between the sales of the licensor and the licensor's related corporation and the amount of money spent by them in research and development. If the relation is very low, it will surely affect the percentage to be approved.

When it comes to renewals, the authorities shall reduce the royalty considerably if it is not shown that a complete new technology shall be transferred.

In respects to the so-called "restrictive clauses," as I said, there are no clauses forbidden by law, though the authority will object to the inclusion of the following:

- Free grant-back provisions.
- Prohibition to challenge the validity of licensed rights.
- Prohibition to the licensee to obtain licenses from third parties.
- Restrictions on research.
- Obligation to hire foreign personnel.
- Price-fixing.
- Restrictions on adaptation of the technology to local conditions.
- Imposition of the licensor as the exclusive sales-agent.
- Obligation to accept future technologies and new licenses of rights.
- Prohibition to export to countries other than those in which the licensor has a corporation or a licensee.
- Restrictions on publicity.
- Payments once the agreement has expired.
- Duration that goes beyond five years unless it is a patent license.
- Certain restrictions after the agreement expires, such as the prohibition to licensee to use the technology if same is in the public domain.
- Limitations on the production and the jurisdiction of foreign courts and application of foreign law in cases of controversy.

As you can see, none are unknown. Most are considered illegal by the antitrust laws of the U.S.A. and by the rules of the European Common Market.

The existence of one or more of these clauses in the agreement shall provoke some discussion with the authorities.

Lastly, in what respect this kind of agreements, no payment for the use of marks shall be approved. This does not mean that they are forbidden. It means they shall not be approved, and as we will see later, nonapproval deserves a different tax treatment.

Filing for Mere Informative Purposes

If the foreign assignor or licensor does not control the local party, then the agreement must be filed for mere informative purposes. There is no intervention of the INTI.

Freedom to Agree

As noted above, the law imposes no maximum to payments and no prohibitions of clauses. Nevertheless, this does not mean that any kind of abuses can be made. As we saw for the agreements executed with the locally controlled corporation, there is a prior examination that will tend to eliminate any abusive condition. The other agreements, those celebrated between independent corporations, have no such control, though they could fall under the antitrust law if there are restrictions to competition. This near freedom should not lead foreigners to impose conditions in their agreements with Argentine parties, that they wouldn't agree in other countries. If this happens we would return to restrictive policies that have been so negative to the country but also to the parties involved.

FORMALITIES

Three copies of the agreement must be filed, though it is convenient to file two originals and one copy, in order to have the originals with official certifications and numbers of registration. The agreements can be filed by any of the parties, but there is a term to do so. Filing must be made within 30 days as from the date of execution. Only then the agreement shall have the effect of law as from date of execution. If not, it shall be effective from the date of filing, or in the date established by the parties if same is to occur after the filing date.

The agreements can be executed in foreign languages, but a translation made by an Argentine "public translator" must be also filed. The parties can execute two versions of the agreement, one in Spanish and the others in foreign language, and file both of them. This last, or to execute the agreement in Spanish, are the best alternatives, since they permit the control of the Spanish text by both parties. In case of controversy at the Courts, a Spanish version shall be used, and it will be better to depend on the executed one than on the one made by the "public translator."

Together with the agreement, a form must be filed with the following data: Name and address of parties, if there is capital of local party in the hands of the foreigner, technology or marks licensed or assigned, estimates sales of the licensed products and of payments to be made, and personnel employed by the local party.

When the foreign party grants a sublicense, sometimes it is requested to file a letter or document whereby the owner of the technology or of the marks declares he has authorized the sublicensor to grant the sublicense.

The ruling decree establishes that in no filing, it shall be required certified signatures or documents of the parties or of the filing person. In the cases of prior approval, it is usual that the technicians of the INTI visit the plant of the local party in order to suspect in-situ the extence of the technology and how it is applied or used.

Lack of Approval or of Filing

The law establishes that lack of filing or of approval shall not affect the validity of the agreement. The penalty is only in the tax field. Payments to be made shall be considered as remittance of benefits, that have a tax of 45% (instead of 18%, 27% or 36%, as we shall see) and they cannot be considered by the local paying party as an expense. These tax differences make nonfiling or nonapproval very expensive.

TAXES

Seal Tax

The seal or stamp tax must bepaid whenever there is a document in which both parties have agreed upon and there is a valuable consideration to be paid by any or both of them. In a license agreement the value that is

subject to the tax is the royalty to be paid. This tax is equivalent to the 1% of the agreement's total value.

To avoid payment of this tax the existence of written consent by both parties must be avoided. This could be done if one of the parties offers the agreement in a letter and establishes that the offer shall be considered accepted when the party concerned performs a certain act, i.e. the acceptance of a manual, first sale, first production, etc.

The agreements executed through the offer and acceptance by an exchange of letters, other times exempted of this tax, are subject to it today. Though the law is not so clear on this point, the tax authorities consider them included.

Taxes on Remittances

The tax law also levies the payments made to a person with an overseas address. A recent modification of said law (October 1985) has created a rather complicated system with different scales.

Article 86 of the Tax Law on Profits establishes that 60% of the amounts paid for technical assistance services, engineering services or consulting services that "cannot be obtained in the country according to the criterion of the technology authorities, if the agreements are duly registered and the services effectively rendered," shall be imposed.

The tax law considers that the other 40% is an expense not levied. Since the tax is 45% applied to the 60%, that tax is of 27%. Payments made for other technologies, patented or not, industrial models and trademarks, pay a higher tax of 36%. In these cases the tax law levies the 80% of the amount paid.

There was difficulty in determining which services deserve a lower tax. Resolution No. 655 of the INTI dated February 26, 1987, established that "technical assistance, engineering and consulting services, are those rendered according to the rules of art, that are performed as an obligation to perform an intellectual creation or a service, that they are paid for in proportion to the duration or value of the performed work, and in which the supplier obliges himself to render specific predetermined services."

The Resolution gives the following services as examples: Conceptual engineering, studies of feasibility or prefeasibility, detail and basic engineering, supervision in the assembling and setting up of machinery, of installation or of plant constructions, technical assistances for their correct operation and preparation of personnel.

The Resolution further clarifies that "the assignment of technical knowledge verified through considerations of continuous rendering or that are paid with a royalty on sales price or on the production volume of the licensed products or services, or that verified for general, eventual or nondetermined needs at the moment of execution of the agreement," shall not be included in the lower tax scale.

Technical assistance is directed to a very specific purpose and not to a generic one, notwithstanding the difficulty that will exist to establish the difference in many cases. If we have one agreement of this kind, we still have to ask for a certificate of the INTI in which it states that said technology cannot be obtained in the country. If the INTI denies said certificate, it must give very good reasons to do so, and most importantly, it must specify where it can be obtained.

As noted above, payments made according to nonfiled agreements shall be treated as if they are profits. This means they shall be levied with a tax of 45% over the amount paid.

Lastly, I must mention that exceptions to the tax amounts established by the Argentine tax law, that come from the international treaties executed between Argentina and other countries, have established that the maximum tax rate that can be imposed to payments made to licensors or assignors of Italy, Sweden, France, shall be 18%. This amount is 15% when they are addressed in Germany.

Payments Made by Licensee or Assignee

A clause in the Argentine profit tax law says that fees or other amounts paid for technical-financial advice, or of any other case given from abroad that go beyond the limits established by the ruling decree, shall not be considered by the payer as an expense, and thus not deductible in its balance. The ruling decree's limit is 3% of the sales or income considered as a contractual basis for the payment or 5% of the amount of the investment effectively made due to the advice.

This is an important limitation for the payer, since beyond the mentioned amounts he shall have to take the money out of his profits.

To avoid its application the wording of the agreement shall be very important to show that the delivery of information and the authorization to use technology is not merely the rendering of advise. If this last is the case, then in the agreement and other items for which payments are made, should be separated in order to avoid reaching the mentioned limit.

Technology as an Investment

The law recognizes that patented and non-patented technology and marks can be transformed into capital of a corporation when the corporation's law permits it. In this case, the INTI shall determine the value of the contribution.

The corporation law admits that the industrial property rights — such as patents, industrial models and designs, and trademarks — be considered contribution of capital. But this does not occur with patented technology such as know-how.