

# Venezuela Eases Licensing Rules

*After year in use, foreigners find nation more attractive for investment; uncertainties end*

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Since the adhesion of Venezuela more than a decade ago to Decision 24 of the Commission of the Agreement of Cartagena (the so-called "Andean Pact"), it was realized that some of the rules pertaining to industrial property licensing had to be eased in order to foster foreign investments in the country.

Problem areas included the short maximum term allowed (5 years), the confidentiality of the technical information revealed which could not exceed the term of the contract, or the impossibility to provide for any royalty when the contract involved as parties "mother-daughter" companies. There was no definition either as to what was the maximum allowable royalty rate, resulting in often frustrating discussions with officials of the Superintendency of Foreign Investments (SIEX), the official body in charge of approving such contracts.

New rules were therefore adopted by the Venezuelan Government, and a year after their implementation, it can be seen in the practice that foreigners are finding it more attractive to invest in Venezuela.

The Official Gazette of the Republic of Venezuela dated August 29, 1986, contains Presidential Decree 1.200 dated July 16, 1986, which establishes the general rules on Foreign Investments and License Agreements covering Trademarks, Patents and Transfer of Technology for their registration before the Superintendency of Foreign Investments (SIEX).

The most important aspects and innovations are:

Article 65 of said Decree states the general principles as follows:

"Every contract proposed to be subscribed by foreign, mixed or national companies, for the importation of technology and the use and exploitation of patents and trademarks, whatever the modalities used which are to have effect within Venezuela, must be authorized and registered by the Superintendency of Foreign Investments" [hereinafter referred to as SIEX]. The documents relating to the following purposes are specifically subject to the authorization and registration referred to in Article 65.

*\*Partners, Bentata, Hoet & Asociados, Caracas, Venezuela; paper presented at the ASIPI Seminar, Cambridge, Massachusetts, April 1987; Mr. Coriat is President of LES Venezuela.*

## Article 67

1. The concession of the use or authorization for the exploitation of trademarks and the distribution of products identified by trademarks owned by foreigners.

Notwithstanding the above, distribution contracts in Venezuela of products identified by trademarks owned by foreigners, shall be subject only to registration. For the registration of the distribution contracts, one copy signed by the parties shall be sent to SIEX within 60 days after its execution. (Art. 77).

2. The concession of the use or authorization for the exploitation of patents of invention or improvements, industrial models and drawings.

3. The supply of technical knowledge through plans, diagrams, models, instructive pamphlets, instructions, formulas, specifications, preparation and training of personnel and other modalities.

4. The supply of basic or detailed engineering for the execution of installations, the manufacture of products and the execution of industrial and construction projects.

5. Technical assistance, whatever the form and the management area in which it is provided.

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

## Exceptions

The same decree states in Article 66 — four exceptions to the general rule. Notwithstanding what is provided for in Article 65, the following are authorized:

-Technological importation contracts.

-Contracts for the use and exploitation of patents and trademarks.

1. They must comply with the provisions of Articles 68, 69 and 71.

Article 68 states that the acts and contracts referred to in the foregoing Articles must contain the information and documents demanded by SIEX on the following matters:

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

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

- Identification of the modalities and conditions of the transfer of technology, of the guarantees that may be applicable to the case in reference and of the treatment the parties intend to give to the improvements developed during the validity of the contract.

- Contractual value of each of the elements involved in the transfer of technology related to the effects of the authorization, expressed in a manner similar to that

provided for in the registration of the direct foreign investment in Decision No. 24 of the Cartagena Agreement Commission and in this Regulation.

- Determination of the validity period, which may not exceed 15 years.
- Conditions of payment, currency and country of destination.
- Clauses geared toward an effective transfer of technology.

Article 69 states: "When the contracts referred to in Article 65 stipulate periods of confidentiality of the technical information revealed, said period may not exceed one equal to the validity of the contract, (the validity of a contract cannot exceed 15 years), counted as of the end of same."

### Obligation of Supplier

Article 71 states that the contracts referred to in Article 65 must contain the obligation of the supplier to train the national personnel, required in order to make the best use of the technological services contracted, for which they a) should prepare a training program; b) likewise, said contracts and those referred to in Articles 72 and 73 (occasional specific services and specific services other than occasional) must assign 2% of the amounts paid each year as countervalue of the contract, for establishing a financial system for furthering the development and the scientific and technological research of — the country or — of the company, through contributions to the institutions determined for such purpose by the Minister of Finance, after consultation with the other Ministers of the economic sector. The companies using the technology contracted must withhold the amounts herein indicated for the purposes of contributions, evidence of which they shall send to SIEEX in due time.

2. Exceptions to the general rules also may not contain the restrictive clauses provided for in:

- Articles 20 and 25 of Decision 24 of the Cartagena Agreement commission.
- Article 1 of Decree N°746 dated February 11, 1975.
- Or any other restrictive clauses defined by the Minister of Finance, previously consulted with the other Ministers of the economic sector (Article 70).

3. They may not stipulate payments or countervalues of any sort.

4. Or contemplate payments for royalties (a) up to a percentage of 5% inclusive, calculated on the net technological sales, or (b) up to 3%, inclusive, calculated on the net profits of the products object of the contract.

All cases include the obligation of registering the contract with SIEEX by sending the original copy signed by the parties within sixty (60) days after subscribing same.

It shall be understood as technological net sale: The value resulting from the difference between the value of the net sale defined in the contract for the licensed product, 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.

Therefore, the entire executed license must be authorized and then registered (depending upon the case), and it will not be sufficient to file a brief statement claiming that such a license has been granted, nor

to present the contract only for registration if the conditions stated in Article 66 are not fulfilled.

### Foreign Companies

License agreements between two foreign companies, neither of which is constituted nor domiciled in Venezuela, are not subject to SIEEX registration. In other words, it is essential that the user be a company either constituted or domiciled in Venezuela. Nonetheless a legalized copy of the agreement must be recorded before the Industrial Property Office for the reasons given below.

What if trademark licenses are not recorded at all? Are the licenses recognized? Under former decree 2442, Article 72, any such agreement that has not been registered with SIEEX shall have no legal effect and, consequently shall produce no rights or obligations between the contracting parties or with respect to third parties. Under new decree 1.200, Article 79 only states that: "Until the acts, agreements or contracts referred to in Articles 63, 67, 72 and 73 of this Regulation, are registered with SIEEX, the payments of the remunerations agreed upon shall be suspended. The amendments to the contracts shall not become valid until they are authorized or registered.

Another question that may arise is, will the use of the mark by the licensee inure to the benefit of the trademark owner if the license is not recorded?

First of all, according to the Andean Pact rules and applicable Venezuelan legislation, all agreements regardless of Form of Royalty Payment between a Venezuelan and a foreign company, for the transfer of technical assistance, know-how or the use and exploitation of foreign trademarks, must be approved by and registered with SIEEX. In particular, SIEEX authorization and registration is necessary for agreements concerning the use or authorization of foreign trademarks and distribution of products bearing Foreign Trademarks (Decree 1.200 Article 65, but please be advised that the prerequisite of authorization only applies if the conditions stated in Article 66 are not met).

In addition, a trademark license agreement in Venezuela must be registered separately with SIEEX and recorded with the Industrial Property Office (PTO) in order to prevent possible cancellation for nonuse of the licensor's Venezuelan trademark registrations. Since the Venezuelan Industrial Property Law provides that the registration of a trademark is without effect when it has not been used for two consecutive years [(Article 36 (d))] the trademark must be used by the trademark owner or a duly recorded licensee in order to avoid being cancelled by third parties on the ground of nonuse. (The same argument is valid in the field of patents unless the owner of the patent has allowed a period of two years as from the date of grant without working in Venezuela the corresponding invention, or when said working is interrupted for an equal period, due to acts of God of *Force Majeure* duly proved before the PTO.)

Briefly, the use of the licensed trademarks made by the licensee will not be considered use of the trademark by the licensor unless the trademark license agreement is appropriately recorded with SIEEX and the PTO. Past failure to register trademark licensed agreements at the Industrial Property Office has become a real concern to

to trademark owners who license their rights in Venezuela. Basically, Article 4 of the Industrial Property Law states that "an assignment of an Industrial Property right has no legal effect as to third parties unless the appropriate recording has been made in the corresponding registration books." While registration of the ownership of a trademark may already have been made at the PTO, often registration of the assignment has not been carried out.

### **Trademark License**

In practice, the trademark license agreement must first be registered with SIEX before it can be recorded with PTO. Recordal with the PTO involves the filing of a SIEX certified copy of the trademark license agreement, of the articles of incorporation of the licensee certified by the Commercial Registry and the tax solvency of the licensee, along with a separate legal brief for each trademark identifying the particular trademark by name, class, issuance date, etc.

Obtaining a SIEX certified copy of a registered license agreement can take up to two months, assuming that the application is made immediately following registration and is accompanied by a photocopy of the agreement. Furthermore, once the license agreement has been submitted to the PTO for recording against the Licensed Trademarks, it normally takes six to eight months before the licenses of use are published in the Official Bulletin. Therefore, in order to fully protect clients' trademarks, we have to go through this entire process.

On the other hand, as we said previously, trademark or patent license agreements between two foreign companies neither of which is constituted or domiciled in Venezuela are not subject to SIEX registration. In other words, it is essential that the user be a Company either constituted or domiciled in Venezuela.

The formal requirements for authorization or registration are the following: Depending upon terms of the license agreement, etc. the licensee must submit SIEX Form-10 (if payment of royalties has been established) or SIEX application Form 10-B (without payment of royalties). The royalty is determined taking into consideration the SIEX's application form.

The licensee must also submit several documents for SIEX's review. Some of the most important documents are: (a) articles of incorporation of its company, (b) its last tax application form, (c) a copy of the trademark or patent registration(s), (d) a copy of the respective qualification of a national, mixed or foreign company given by SIEX, (e) a training program in case technical assistance is involved, etc.

Specific royalty restrictions (minimum royalties or compensation). Provisions required or prohibited.

Under new Resolution 1.200 the technological contributions resulting from the acts, accords or agreements described in Articles 65 and 67 of said Decree, shall give the right to payment of royalties, after the contract is authorized by SIEX, but may not be calculated as capital contribution to the owner, or of the supplier of the technology to the receiving company.

Notwithstanding, in cases in which there has appeared a credit for technological services effectively provided, the company providing the contracted technology may capitalize said credits in the receiving company, after

approval by the stockholders and by SIEX.

Such countervalue may be paid to the holders of same, without the need of prior authorization, provided that it is so done within the terms provided for in the respective contract and after payment or withholding of the corresponding taxes.

The company shall be obliged to make the payments through commercial banks and shall be obliged to so notify SIEX within 15 days of having done so, depositing for this purpose the vouchers of the transfers made.

Except for the provisions of Articles 72 and 73 of this Regulation, when the technological contributions are provided to a foreign company by its parent company or a subsidiary of the same parent company, the payments of royalties or other remuneration shall not be authorized nor shall any tax deduction be accepted for said concept.

### **Transformation Agreements**

However, foreign companies that have signed transformation agreements with SIEX in order to convert to national or mixed companies may pay royalties or other remuneration to any supplier as of the date of the registration of the respective contract of technological contribution at SIEX.

The payment of royalties shall likewise be allowed between foreign companies and their supplying parent company when the transferred technology was used to place in foreign markets more than 80% of the products object of the contract in foreign markets and these have a national added value of more than 50% as determined by the Institute of Foreign Commerce, from the date of the registration of the respective contract by SIEX.

As noted above, under Resolution 1.200, Article 66, the maximum payment of royalties permitted without previously presenting the contract for its authorization before SIEX is up to 5% inclusive, calculated on the net technological sales, or up to 3% inclusive, calculated on the net profits of the products object of the contract.

Obtaining a higher royalty payment would depend on the review of such SIEX application Form 10, as well as any conversations that the parties may have with SIEX toward justifying the higher royalty.

It is also important to bear in mind that Article 78 states that no payments shall be permitted for the concept of royalties, nor for other causes, for the use of trademarks, processes, patents or industrial models, for a period exceeding that of the validity of the industrial property right granted by the respective law.

The industrial property law states that the exclusive right to use a registered trademark will remain in force for a period of 15 years from the date of registration, and is renewable for successive periods of 15 years, providing that the interested party applies for renewal within six months prior to the expiration of each period. Each renewal period will run as from the date of expiration of the proceeding one (Articles 31 and 32).

As expressly provided in the law, this exclusive right to a trademark, commercial tradename or slogan only applies with respect to the class of products, activities or companies for which registration has been granted in accordance with the official classification (of 50 classes) established in Article 106 of the law.

The exclusive right to exploit a patent or invention,

an improvement invention or an industrial model or design remains in effect for 5 or 10 years, at the election of the applicant; however patents of introduction are only valid for five years (Art. 9).

SIEX may supervise the execution of the contracts under the terms approved. For such purpose, the contracting parties must inform every 360 days as to activities carried out with relation to same and, specially whether the process, patent or trademark is effectively being exploited under the adequate economic conditions and pursuant to the terms and conditions authorized and registered, as well as the execution of the training programs and the process of assimilation of the technology transferred or to be transferred. In case of violation of the terms and conditions of the approved contract, SIEX may suspend or cancel through reasoned resolution the registration of the contract, depending on the seriousness of the fault. (Art. 76).

*Occasional Specific Services (Article 72)*

It is considered as an occasional specific service, one for the purpose of attending to or resolving unforeseen situations arising during the activities of the company.

Among those aspects to be borne in mind are:

- Companies shall not require the prior authorization of SIEX in order to obtain such a service against payment of it.

- These contracts shall be subject to the subsequent obligation of registration at SIEX within 30 days counted as of the date of their execution.

- SIEX shall be likewise notified of the payment of the respective countervalue within 30 days after it is made, through the presentation of the vouchers evidencing said transfer.

*Specific Services Other Than the Occasional (Article 73)*

It is considered as specific services other than the occasional:

- Those for the purpose of attending to foreseen situations.

- Those arising during the course of the activity of the company.

- Those of a not recurrent nature.

- Those with a duration of up to six months.

- The countervalues are determined (a) on the basis of fees or tariffs, (b) on a calculation basis different from that of the volume of production or sale, or other forms of establishing royalties.

- It is also provided that after the lapse of the period herein stipulated without having concluded the services contracted to be provided, the respective contracts may be extended once only, for a service equal to the original terms, after notifying SIEX.

- Even though a previous authorization is not required for this type of contract, there exists in all cases, the subsequent obligation of registration at SIEX within 30 days counted as of its execution.

Moreover, SIEX shall also be notified of the payment of the respective countervalue within 30 days after it has been made, by presenting the vouchers evidencing said transfer.

It is important to bear in mind that when the parties planning to subscribe the contracts referred to above are not sure as to the nature of the contracts to be subscribed, they may ask for the prior opinion of SIEX which

must be given within five working days of the filing of the respective application. And all requests for opinions made pursuant to this paragraph must be accompanied by the draft of the respective contract.

Clauses of obligatory amendment or elimination, that must be borne in mind when the parties decide to draft a license agreement include:

- Clauses by which the supply of technology carries the obligation for the company of the receiving country to acquire from a specific-source capital goods, intermediate products, raw materials or other technology or to permanently use personnel indicated by the supplier of the technology. In exceptional cases it may be possible to accept clauses of such nature for the acquisition of capital goods, intermediary products or raw materials, as long as their price corresponds to the normal levels in the international market [Article 20 A), 25 b) and 25 e) of Decision 24].

- Clauses according to which the supplier of the technology reserves the right to determine the prices of sale or resale of the products, on the basis of the technology and under the trademark [Articles 20 b) and 25 c) of Decision 24].

- Clauses prohibiting or limiting in any manner the exportation of the products made on the basis of the technology or under the trademark or similar products except for special cases duly qualified and in no case with respect to the subregional exchange or of the exportation of similar products to third countries [Articles 20 and 25 a) of Decision 24].

- Clauses containing restrictions referring to production volume and structure [Article 20 c) of Decision 24].

- Clauses prohibiting the use of competitive technology [Article 20 d)].

- Clauses establishing a total or partial purchasing option in favor of the technology supplier. [Article 20 e) of Decision 24].

- Clauses compelling the buyer of the technology to transfer to the supplier the inventions or improvements obtained by virtue of the use of said technology [Article 20 f) of Decision 24].

- Clauses providing for payment of royalties for intangible technological contributions supplied to a foreign firm by its mother company or by any another subsidiary of said mother country. In this case the payments of royalties or other remunerations are not authorized, nor is it possible to deduct this concept for income tax purposes.

- Clauses that provide the payment of royalties for unused trademarks to the trademark owner [Article 25 d) of Decision 24].

- Clauses that withdraw from the competence of the receiving country possible conflicts or controversies [Article 51 of Decision 24].

- Clauses prohibiting the manufacture or sale at the expiration of the contract of the products manufactured on the basis of the transferred technology [Article 1 a) of Decree 746].

- Clauses prohibiting the use after the expiration of the contract of technical knowledge acquired on the basis of the technological information contracted [Article 1 b) of Decree 746].

- Clauses prohibiting the use at the expiration of the contract of trademarks similar to those of the supplier [Article 1 c) of Decree 746].

- Clauses compelling the use of specific systems of control of quality as a means of subjecting the user of the technology [Article 1 d) of Decree 746].

- Clauses establishing the obligation to sell the production totally or partially to the supplier [Article 1 e) of Decree 746].

- Clauses establishing the payment of royalties for non-transferred technical assistance [Article 1 f) of Decree 746].

- Clauses providing for payment of royalties when the technology has been acquired through a purchase by the user [Article 1 g) of Decree 746].

- Clauses establishing the obligation to pay the taxes corresponding to the supplier of the technology [Article 1 h) of Decree 746].

- Clauses compelling the user of the technology to grant an irrevocable authorization to the supplier for

the sale of the products [Article 1 i) of Decree 746].

- Clauses compelling to grant to the supplier a license of use of the improvements or inventions which the user may make with respect to the process or products object of the contract [Article 1 j) of Decree 746].

Other clauses of equivalent effect [Articles 20 h) and 25 f) of Decision 24] are clauses that are not specifically prohibited but could be objected during the examination of the contract. In any case SIEX can consider and determine the degree of restriction or prohibition of the clauses indicated, taking into account the technological development and the economic and social interests of the country, and it can define or include others. On the other hand the user of the technology must fill in a special form (SIEX 10) and this form must be accompanied with the documents indicated in its first page.