

Advisory Opinion 4.15

Third Party Royalties and Licence Fees

1

Licensor -
Country R

Manufacturer -
Country X



Supply
agreement



Licence
agreement/
royalty fees



Sale of
goods
(shoes)



Importer -
Country S

- Under the licence agreement a royalty is payable, for the right to use its trademark in connection with manufacture and importation of the goods
- Royalty consists of a fixed percentage calculated on the net income obtained by I from sales in country S of the products bearing such trademark
- If I fails to pay L the royalty, L has the right to terminate the licence agreement
- L and I are related under the terms of the Valuation Agreement.

Licence agreement.

- L has signed a supply agreement with company M of country X in order for M to manufacture the goods bearing its trademark and then to sell them to I
- Under this agreement :
 - M must follow the specifications relating to quality, design and technology provided by L
 - M undertakes to produce and to sell products with this trademark exclusively to I or other companies determined by L
- Company M is not related to L or to I.

Supply agreement.

- Under the sales contract, M sells to I goods bearing the trademark of L
- There is no explicit requirement in the contract to pay the corresponding royalty
- The price actually paid by I to M for the imported goods does not include the royalty payment from I to L

Sales agreement.

Is the royalty related to the imported goods?

- As the goods bear the trademark of L, it can be stated that the royalties in question are related to the goods being valued

Is the royalty paid as a condition of sale of the imported goods?

- Under the supply agreement, L controls the production relating to the goods bearing its trademark by :
 - Authorizing the manufacture of the licensed goods, determining which companies M may sell to
 - Directly providing the designs and technology to manufacturer M
- Under the license agreement, L further influences and controls the transaction between M and I by selecting what party may use the trademark and purchase the imported goods.

Is the royalty paid as a condition of sale of the imported goods? *(continued)*

- Although the sales contract does not contain any clause requiring payment of a royalty, payment of the royalty is made as a condition of sale of the goods, because I would not be able to buy them if it failed to make that payment to L
- Non-payment of the royalty would cause termination of the licence agreement and withdrawal of the authorization given to M to manufacture and sell to I the goods bearing the trademark

CONCLUSION

- **The royalties in question should be added to the price actually paid or payable for the goods under Article 8.1(c) of the Agreement.**

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