

ALERTS AND UPDATES

World Customs Organization Publishes Commentary to Valuation Agreement Related to Dutiable Status of Third-party Royalties and License Fees

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The United States and many of its trading partners have often disagreed on the inclusion of royalties and license fees in the dutiable value of imported merchandise. The World Customs Organization ("WCO") Technical Committee has recently published Commentary 25.1 to the WCO Valuation Agreement, in an effort to bring uniformity to the interpretation of the language found in customs valuation statutes that relate to the dutiable status of third-party royalties and license fees ("fees").

U.S. Customs valuation statute, 19 USC 1401a(b) provides, under certain circumstances, that "any royalty or license fee related to the imported merchandise that the buyer is required to pay, directly or indirectly, as a condition of the sale of the imported merchandise for exportation to the United States" may be added to the dutiable value of imported merchandise.

This legal provision has concerned importers and drafters of agreements for some time. The dutiable status of such fees are fact-specific and require analysis of all material facts and circumstances surrounding a transaction involving sales for exportation to the United States.

The recently published WCO Technical Committee Commentary 25.1 addresses these concerns. The Technical Committee states that in determining whether a fee is "related" to the goods being valued, one would seek to ascertain whether the imported goods "incorporate the intellectual property and/or are manufactured using the intellectual property covered by the license." An example is when the imported goods incorporate the trademark for which the royalty or license fee is paid. This would indicate a relationship of the fee to the imported merchandise.

In determining whether the fee is paid "as a condition of the sale," various elements would be examined, including whether the buyer is "unable to purchase the goods without paying the fee." Also, the relationship of the third party to the seller may be a key element to consider in the analysis. The likelihood is greater for a finding that a fee is dutiable where such a relationship exists. However, each transaction should be examined based on all relevant material facts related to the sale. This analysis would include reviewing the "contractual and legal obligations contained in the relevant documents."

The WCO Technical Committee has listed the following five factors that could be included in determining whether payment of the fee is a condition of sale.

1. There is a reference to the royalty or license fee in the sales agreement or related documents.
2. There is a reference to the sale of the goods in the royalty or license agreement.
3. According to the terms of the sales agreement or the royalty or license agreement, the sales agreement can be terminated as a consequence of breaching the royalty or license agreement because the buyer does not pay the royalty or license fee to the licensor.
4. There is a term in the royalty or license agreement indicating that if the royalties or license fees are not paid, the manufacturer would not be permitted to manufacture and sell the goods incorporating the licensor's intellectual property to the importer.

5. The royalty or license agreement contains terms that permit the licensor to manage the production or sale between the manufacturer and importer (sales for export to the country of exportation) that go beyond quality control.

These factors are not all-inclusive. Moreover, these are guidelines that are not controlling with respect to determinations made by the United States and its trading partners. U.S. importers may seek binding valuation rulings from U.S. Customs and Border Protection relating to the dutiable status of royalty and license fees. It may be prudent for importers to seek such rulings.

More details regarding third-party royalties and license fees can be obtained on the [WCO website](#) and the [U.S. Customs and Border Protection website](#).

For Further Information

If you have any questions about this *Alert* or would like more information, please contact [Brian S. Goldstein](#), any other [member](#) of the [Corporate Practice Group](#) or the attorney in the firm with whom you are regularly in contact.

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