

Corpsec Hotline

June 26, 2003

LIBERALIZATION OF PAYMENTS UNDER FOREIGN TECHNICAL COLLABORATION AGREEMENTS

As per the extant guidelines on foreign direct investment issued by the Ministry of Commerce and Industry, the Government of India, wholly owned subsidiaries are permitted to make payment of royalty up to 8% on exports and 5% on domestic sales to their offshore parent companies without seeking the prior approval of the Reserve Bank of India (i.e. under the automatic route) without any restriction on the duration of the royalty payments. However, companies which are not wholly owned subsidiaries, were permitted to make royalty payments under foreign technical collaboration agreements for a period not exceeding seven years from the date of commencement of commercial production or ten years from the date of execution of the collaboration agreement, whichever is earlier.

With a view to liberalizing the policy relating to foreign technical collaboration agreements, the Ministry of Commerce and Industry has issued Press Note No. 2 (2003 series) dated 24th June 2003, which permits all companies, irrespective of the extent of foreign equity in the shareholding, who have entered into foreign technology collaboration agreements to make royalty payments at 8% on exports and 5% on domestic sales without any restriction on the duration of the royalty payments.

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