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### » Liberalization of Foreign Technology Agreement Policy

Indian companies paying royalty to foreign firms for technology transfer, use of brand name or trademark will no longer require government approval. The Department of Industrial Policy and Promotion (DIPP) has declared vide Press Note 8 (2009) dated December 16, 2009 that payments for royalty, lump sum fee for transfer of technology and payments for use of trademark/brand name will be under the automatic route with immediate effect.

However, these payments will be subject to Foreign Exchange Management (Current Account Transaction) Rules.

Earlier, automatic approval was permitted only for foreign technology transfer involving payment of lump-sum fee of US \$ 2 million and royalty of 5% on domestic sales and 8% on exports. In addition, where there is no technology transfer involved, royalty up to 2% for exports and 1% for domestic sales was allowed under automatic route on use of trademarks and brand names of the foreign collaborator. Beyond these limits, prior permission of the Project Approval Board in the DIPP was required.

Companies will no longer have to bother about such payments, allowing them to attract greater investments. Royalty and technology transfer payments are often associated with purchase of machinery, components, raw materials and intermediates. A free regime will allow better sourcing and limits on payments will not become a constraint. This is expected to facilitate greater investment in and transfer of technology to India.

In case of any clarifications please contact our Private Equity Team.

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**ARA LAW – Advocates & Solicitors**

3/F Mahatma Gandhi Memorial Bldg.,  
7, Netaji Subhash Road, Charni Road (West),  
Mumbai – 400 002.  
Tel: (+91 22) 66199800  
Fax: (+91 22) 66100800

E-mail: [bom@aralaw.com](mailto:bom@aralaw.com)

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