

THE REPUBLIC OF UGANDA
IN THE TAX APPEALS TRIBUNAL AT KAMPALA
APPLICATION NO. TAT 05 OF 2015

BATA SHOE CO. (U) LTDAPPLICANT

VERSUS

UGANDA REVENUE AUTHORITYRESPONDENT

RULING

This ruling is in respect to an application challenging a Value Added Tax (VAT) Assessment of Shs. 350,765,156/= under the East African Community Customs Management Act and the regulations made thereunder.

The facts giving rise to this application are as follows; The applicant, a company incorporated in Uganda, is engaged in the business of selling and distributing footwear, imported from Kenya, Singapore and China, under the brand Bata.A Post Clearance Audit, carried out by the respondent upon the applicant for the period, January, 2011 to December, 2013, assessed additional taxes of Ushs. 350,765,156/= (Uganda Shillings Three Hundred and Fifty Million Seven Hundred and Sixty Five Thousand One Hundred and Fifty Six only). The said taxes comprised; VAT of UShs. 279,705,753/= (Uganda Shillings Two Hundred and Seventy Nine Million Seven Hundred and Five Thousand Seven Hundred and Fifty Three only), Import Duty of UGX. 69,170,970/= (Uganda Shillings Sixty Nine Million One Hundred and Seventy Thousand Nine Hundred and Seventy only), Excise Duty of UGX. 1,242,070/= (Uganda Shillings One Million Two Hundred and Forty Two Thousand Seventy only) and Withholding Taxes of UGX.646,363/=(Uganda Shillings Six Hundred and Forty Six Thousand Three Hundred and Sixty Three only). The Respondent later dropped its claim for the Withholding Tax.

The basis for the additional assessment as asserted by the respondent was that royalty fees paid by the Applicant to Bata Brands S.a.r.l, of Luxembourg (hereinafter referred to as Bata Brands), under a Trademark Licensing Agreement, ought to have formed part of the customs

value under the provisions of the 4th Schedule Part (C) of the East African Community Customs Management Act of 2004.

The applicant objected to the additional assessment. The respondent's Objection Decision merely reiterated its earlier position that the Royalty fees paid by the Applicant to Bata Brands, under the Trademark Licensing Agreement, ought to have formed part of the Customs value under the 4th Schedule of the East African Community Customs Management Act of 2004.

The following issues were set down for determination;

1. Whether the Royalty payments by the Applicant to Bata Brands S.a.r.l Luxembourg should be included in the dutiable value of the imported goods?
2. What remedies are available to the parties?

The applicant was represented by Mr. Ronald Kalema and Mr. Edward Balabawhile the respondent by Mr. HalunaMbetta.

The applicant's sole witness was its chief accountant, Mr. Charles Kadde, who testified that the applicant is engaged in the business of importing and retailing footwear from Kenya, China and Singapore with the majority coming from Kenya. He also testified that following a post-tax audit for the years 2011 – 2013, the respondent assessed additional taxes on the applicant, in respect of VAT and Import duty in respect of royalty payments made by the applicant to Bata Brands. Mr. Kadde explained that in exchange for the right to use the word and name "Bata" in the Applicant's corporate name and in connection with all its business activities, the Applicant pays Bata Brands royalties comprising 2% of the total annual sales of the Applicant. He referred to the Trademark Licensing Agreement between the Applicant and Bata Brands dated 1st January, 2006 and marked as exhibit "AE2". Mr. Kadde testified that it is not a requirement for the Applicant while purchasing goods from Bata Shoe Company of Kenya to first pay royalty to Bata Brands.

Under cross examination, Mr. Kadde testified that the quality of the goods imported by the applicant is regulated by Bata Brands. He also testified that it was not permissible for the applicant to import goods into the country bearing the Bata trade mark without the consent of Bata Brands. He further testified that the goods sold by the applicant under the Bata trade mark are imported from Bata Kenya, Bata Singapore and Bata India. Mr. Kadde also stated that it was not permissible for the applicant to purchase goods from manufacturers who were not subsidiaries of Bata Brands. He testified that the applicant usually receives inspection teams from Bata Brands to check on the operations of the applicant. It is permissible for the applicant to import shoes that did not bear the Bata trade mark. The witness further testified that the applicant paid all the requisite taxes due on the payment of the royalties to Bata Brands. Under re-examination, the witness clarified that Bata Brands does not play any part in the process relating to the importation of shoes from the companies approved by it.

The respondent also called one witness its Assistant Commissioner Enforcement, Ms. Agnes NabwireWaiswa who testified that in 2013, the respondent conducted a post customs audit on the applicant which revealed undervaluation of goods imported by the applicant for the period 2011-2013. She testified that the under valuation arose as a result of the failure by the applicant to add the royalties paid to Bata Brands under the Trademark Licensing Agreement dated 1st January, 2006. The said Trademark Licensing Agreement provided for payment of royalties and the approval by Bata Brands of the suppliers from whom the Applicant should import the shoes sold at its outlets and certain conditions relating to quality control. The witness further testified that the royalties paid by the Applicant to Bata Brands ought to have been added to the price of the imported shoes because the payment of the royalties were related to the goods imported and that further the royalties were paid to Bata Brands as a condition of sale.

The applicant submitted that the royalties paid by the Applicant should not form part of the customs value of the goods because, firstly, the royalties paid it to Bata Brands did not fulfil the conditions specified under paragraph 9(i) (c) of the Fourth Schedule and sub paragraph (1) (c) Clause 2 to the Note on interpretation of para.9 (i) (c) of the Fourth Schedule to the

EACCMA. Secondly, the goods purchased by the applicant are majorly from Kenya within the East African Community and are therefore not imports but transfers whose transactional values should not be adjusted under the 4th Schedule of the EACCMA (given that Kenya and Uganda are members of the EAC Customs Union). Thirdly, the VAT on royalties had already been paid by the Applicant as VAT on imported services and therefore should not be reassessed as VAT on imported goods as this would amount to double taxation.

The applicant also submitted that under S.122 of the EACCMA, the transaction value of the imported goods, in cases where royalties are paid, should only be inclusive of royalties subject to specified conditions. Firstly, that the royalty payment should be directly or indirectly related to the goods being valued for customs purposes and secondly that the royalty payment is paid as a condition of sale of the goods being valued for customs purposes. The applicant submitted that both these conditions have to be met before the royalties paid by the Applicant can be added to form part of the customs value of the goods.

The applicant submitted that the royalty payments that it made to Bata Brands are not a condition of sale of the imported goods from its suppliers and should therefore not be added on to the transaction values of the imported goods to derive the dutiable/customs value. The applicant argued further by that the rights that accrue upon payment of the royalties to Bata Brands are well stipulated in the Trademark License Agreement AE2 and that these do not include the right/privilege of selling imported goods.

The applicant cited the High Court of Kenya decision of the *Republic v. Kenya Revenue Authority Ex parte Bata Shoe Company (Kenya) Limited* JR Case No. 36 of 2011 delivered on 21st February, 2014. That case like the present one also related to the Application and interpretation of Section 122 and the Fourth Schedule of the EACCMA.

The applicant went on to submit that clause 4 on royalties of the Trademark Licensing Agreement as amended by the Amendment agreement marked as "AE3" revealed that the royalties are paid by the Applicant as a percentage of sales made and are not paid based on

values of imported goods or purchase price of the products and are therefore too remote from the value of the imported goods. It is the submission of the Applicant therefore that such royalties so paid cannot be construed as a condition of sale of the imported goods.

In determining whether a condition of sale exists the applicant set out the following two conditions; Firstly whether the seller would not sell the goods for export to the buyer without the royalty payment? Or, in the alternative, whether the buyer could not buy and import the goods being valued, without the royalty payment being made? In answering the above, the Applicant referred to the testimony of Mr. Charles Kadde and concluded by stating that no condition of sale existed since it was clear from Mr. Kadde's testimony that none of the exporters of the shoes to the applicant were under a legal bar from exporting the shoes in question to the applicant without the applicant first having paid the royalty set out under the Trademark Licensing Agreement and further that the applicant was not under any legal impediment from importing the said shoes from the said suppliers without first having paid the royalty in question.

The Applicant further submitted that the Respondent's witness, Ms. Agnes Wabwire Waiswa, misinterpreted clause 1(v) of the Trademark Licensing Agreement which directed the applicant to procure the manufacture of products only from suppliers pre-approved in writing by Bata Brands, as being a condition of sale thereby entitling the respondent to add the value of the royalty to the price of the goods. The applicant argued that clause 1(v) of the Trademark Licensing Agreement was merely a condition for the use of the trademark and not a condition of sale.

In respect of the second part of the first issue, the applicant submitted that the footwear purchased from Bata Kenya are not imports but rather transfers of goods. The applicant cited Article 1 of the Protocol on the Establishment of the East African Customs Union for the assertion that the goods purchased from Kenya, within the East African Community, by the applicant into Uganda are not imported goods for customs purposes. The applicant referred the tribunal to the testimony of Ms. Wabwire, wherein she had testified that goods originating

from the East African Community countries to Uganda attracted 0% import duty. The applicant further submitted that such goods as those purchased by the Applicant from within the East African Community are technically referred to as “transfers” and that the transaction values of these transferred goods should not be adjusted under paragraph 9 of the 4th Schedule.

The applicant cited the EAC Administrative ruling on valuation of goods transferred from one partner State to another in the EAC dated 23rd January, 2015. The Applicant reproduced the following excerpt from the said ruling;

“The valuation of transferred goods by customs for VAT purposes upon entry into a partner State is the ex-factory price of that product which is the same basis upon which local VAT is computed for the same or like product in the destination partner State. The inclusion of other costs after the Ex-factory level would be inconsistent with the principles of the Customs Union since they introduce a discriminatory element in the treatment of goods”.

On the third issue, the applicant submitted that VAT on royalties had already been paid by the applicant as VAT on imported services and therefore should not be reassessed as VAT on imported goods as it would amount to double taxation. The applicant referred to the testimony of Ms. Wabwire, that the VAT paid by the applicant on the royalties was paid on behalf of Bata Brands and that the applicant was merely a withholding agent of Bata Brands. The applicant submitted that unlike Income Tax, the concept of a withholding agent does not exist for the purposes of the VAT Act.

The applicant submitted that the obligation to pay the VAT was imposed on the applicant, the VAT on the royalties was incurred by the applicant and was correctly paid by the applicant as required under the law. The applicant further submitted that it accounted for and paid the VAT on imported services in its own name and in fulfillment of its own tax compliance obligations and that therefore it is wrong for the respondent to allege that the applicant paid the VAT on behalf of Bata Brands. The applicant further submitted that regardless of the fact whether the royalties formed part of the dutiable value of the goods or not, the same royalty transactions

cannot both relate to goods and services at one and the same time for the purposes of the VAT Act.

The applicant therefore prayed for a declaration that the royalty payment made by the applicant to Bata Brands are not subject to customs duty under the provisions of the EACCMA and that therefore the additional assessments of tax be vacated. The applicant prayed for a further declaration that the assessment of VAT on the royalty payments amounts to double taxation as VAT is already accounted for on the royalties as an imported service. The applicant also prayed for the costs of the Application.

In reply the respondent submitted that the royalty payment made by the Applicant to Bata Brands should be included in the dutiable value of the imported goods. The respondent referred to the Trademark Licensing Agreements (AE2 and AE3) and invited the tribunal to find that the royalties paid by the applicant to Bata Brands are directly related to the shoes imported by the applicant and that they constitute a condition of sale within the meaning of Paragraph 9 (1) (c) of the EACCMA. The respondent made particular reference to the following paragraphs under exhibit AE2; Paragraph 1 which granted the applicant the right to use the word and name Bata in its corporate name and in connection with its goods and services and business activities. Paragraph 1 d (v) which expressly states that the applicant shall only procure the manufacture of products only from suppliers pre-approved in writing by or on behalf of Bata Brands. Paragraph 4 (a) which set out the applicant's obligation to pay annual royalty fees amounting to 2% of the annual total sales. The failure of which, results in termination of the agreement or incurs the payment of interest at the rate of 12% p.a in accordance with paragraph 4(f). Paragraph 7 which gives Bata Brands sweeping powers to regulate and enforce the quality of the products imported and sold by the applicant. Paragraph 10 and 11, which prohibited the use by the applicant of the Bata trademark upon termination of the Agreement. The Respondent relied on the paragraphs referred to above to support the argument that the royalty payment did not only relate to the shoes imported but that they constituted a condition of sale.

The Respondent sought to water down the effect of the authority of *Republic vs. Kenyan Revenue Authority* on the following grounds; Firstly, that the said authority is only persuasive and not binding on the tribunal. Secondly, that the finding by the High Court of Kenya to the effect that the licensing agreement between Bata Shoe Company (Kenya) Ltd and Bata Brands had no nexus between the purchases made by Bata Kenya from China through BSS, was wrong for the reason that the Trademark Licensing agreement between Bata Brands and Bata Kenya expressly prohibited Bata Kenya from procuring shoes/goods from manufacturers not approved in writing by Bata Brands. Thirdly, that the finding of the High Court of Kenya, that the royalty fees were paid for the use of the Trademarks in Kenya and had nothing to do with the prices of imported goods contravened S. 122(1) and paragraph 9 (1) (c) of the EACCMA on the valuation of imported goods. The respondent submitted that royalty payments cannot be divorced from the shoes imported by the applicant.

The respondent further submitted that the Trademark Licensing Agreement should not be interpreted in isolation but as a whole and that the applicant is not only obligated to pay the royalty, but is also under the duty to import goods from manufacturers pre-approved by Bata Brands which are conditions of Sale. The Respondent further argued that there was no iota of evidence that the goods in question are manufactured in Uganda and that without the applicant paying the royalty among other conditions it cannot import or use the Bata trademark in Uganda, hence the royalty paid by the Applicant related to the shoes imported.

The respondent submitted that no case of double taxation arose as claimed by the applicant. The respondent contended that the import duties are taxes payable by the applicant as an importer and not by Bata Brands. Further that there is no evidence that the applicant had earlier paid the same. The respondent asserted that the applicant only sought to hide behind the payment made by Bata Brands so as to avoid its own tax liability.

The respondent argued that the royalty payment in issue being an international payment on the supply by the applicant attracted both VAT and Withholding tax in accordance with the Income Tax Act and the VAT Act and that the VAT and the Withholding tax claimed to have

been paid by the applicant was deducted from the 2% royalty payable to Bata Brands. In effect the initial local tax was paid by Bata Brands and that the applicant was simply a withholding agent for tax purposes.

The respondent explained that the payment of VAT by Bata Brands was in accordance with the VAT Act on a supply of royalty made to the Applicant. The Respondent further explained that a royalty is not a service as submitted by the Applicant but an intangible property. The respondent argued that while Bata Brands must account for its domestic VAT liability on the supply to the applicant the applicant on the other hand must account for the VAT transferred from Kenya. The respondent explained that each incidence of VAT is payable by either party at different levels. While conceding that the goods from Kenya were transfers the respondent submitted that all goods whether imported or transferred from Partner States by the Applicant are subject to VAT (UGX. 279,705,753/-) and Excise Duty (UGX.1,242,070/=) where applicable. While the assessment of UGX. 69,170,970/= applied to only the goods from China, India, Pakistan, Thailand, Indonesia and Hong Kong. The respondent therefore concluded that the goods imported from the non-partner States were properly subjected to import duty in accordance with the EACCMA.

The respondent submitted that the VAT and Excise Duty on both the imports and the transfers were not levied under the EACCMA but under our Value Added Tax Act and Excise Duty Act respectively. The respondent further submitted that the VAT and Excise duty applied irrespective of whether the goods consigned by the applicant were imports or transfers.

The respondent prayed that the assessment of UGX. 350,118,795/= against the applicant is upheld and the application be dismissed with costs to the respondent.

In rejoinder, the Applicant reiterated its earlier submissions.

Having listened to the evidence, perused the exhibits and read the submissions of the parties this is the ruling of the Tribunal.

The applicant divided the first issue: whether the royalty payment by the applicant to Bata Brands S.a.r.l Luxembourg should be included in the dutiable value of the imported goods into three namely; 1) the royalties paid by the applicant to Bata Brands S.a.r.l do not fulfill the conditions specified in paragraph 9 (i) (c) of the fourth schedule and sub paragraph (1) (c) point No. 2 to the Note on interpretation (of Para.9 (i) (c) of the fourth schedule to the EACCMA and therefore should not be included in the customs value; 2) The goods purchased by the applicant are majorly from Kenya within the East African Community and are therefore not imports but transfers whose transactional values should not be adjusted under the 4th schedule of the EACCMA (given that Kenya and Uganda are members of the EAC Customs Union); 3) The VAT on royalties had already been paid by the applicant as VAT on imported services and therefore should not be reassessed as VAT on imported goods as this would amount to double taxation.

The applicant paid import duty for the footwear on the transaction value at time of import. However the applicant made a further and later payment of royalty to Bata Brands. While it is not in dispute that the shoes sold by the applicant attracted import duty the point of contention whether the royalty fees should be included in the price of the footwear and taxed. While the respondent contends that it attracts import duty the applicant objects.

Import duty is imposed by the East African Community Customs Management Act, 2004 (EACCMA). S. 122(1) of the said Act provides that “where the imported goods are liable to import duty *ad valorem*, then the value of such goods shall be determined in accordance with the Fourth Schedule and Import duty shall be paid on that value”. Paragraph 2(1) of the Fourth Schedule to the EACCMA states that the transaction value of the imported goods shall be the transaction value, which is the price actually paid or payable for the goods when sold for export to the Partner State adjusted in accordance with the provisions of Paragraph 9.

Imported goods increasingly incorporate intellectual property rights. These rights are compensated for by payments known as royalties or license fees. Customs valuation laws the world over recognize that in appropriate cases such payments ought to be included in

reckoning the customs value of such goods. Where such payments have already been included in the price of the goods then such value automatically forms part of the customs value. Paragraph 9(1)(c) of the Fourth Schedule of the EACCMA provides that in determining the Customs Value, there shall be added to the price actually paid or payable for the imported goods;

‘royalties and license fees related to the goods being valued that the buyer must pay, either directly or indirectly, as a condition of sale of the goods being valued, to the extent that such royalties are not included in the price actually paid or payable’.

Part II of the fourth schedule on interpretative notes specifically the note to paragraph 9(1) (c) of the EACCMA provides as follows;

1. “The royalties and license fees referred to in paragraph 9 (1) (c) may include, among other things, payments in respect of patents, trademarks and copyrights. However, the charges for the right to reproduce the imported goods in the partner State shall not be added to the price actually paid or payable for the imported goods in determining the customs value”
2. Payments made by the buyer for the right to distribute or resell the imported goods shall not be added to the price actually paid or payable for the imported goods if such payments are not a condition of sale for export to the Partner State of the imported goods”.

Hence it cannot be denied that royalty fees can be included in the price of the goods.

However, Paragraph 9 of the Fourth Schedule provides for a situation where the value of the intellectual property rights may not be included in the price of the goods. It provides that the royalty fees when included as a value of the goods is not paid as a condition of sale. The conditions under which payments to use the rights in question are to be included in determining the customs value of the imported goods is what forms the gist of the application before us.

While the respondent contends that the royalty fees constituted a condition of sale in the value of the footwear, the applicant objects. The EACCMA does not define condition of sale.

The applicant cited High Court of Kenya decision of *Republic vs. Kenya Revenue Authority Ex parte Bata Shoe Company (Kenya) Ltd* JR CASE NO. 36 OF 2011 which was useful in many respects. Justice W.K. Korir at pages 42 and 43 stated:

“The question would then be whether the royalty fee paid to Bata Brands is a condition of sale. In my view, it is not. The Trademark Licensing Agreement between the Applicant and Bata Brands has no nexus between the purchases the Applicant makes from China through BSS. Bata Brands cannot stop the Applicant from purchasing Bata products from third parties. If the Applicant fails to pay the royalty fee, the only thing Bata Brands can do is to pursue the options in the TLA. Of course the Applicant cannot legally use the Bata trademarks if the TLA is terminated but this does not stop it from purchasing Bata products for whatever fanciful reason it may have. There is no evidence that the Bata Brands has any control over BSS or CFS.....

Where the nexus between the sale and the royalty payment is remote, it cannot be said that the royalty payment is made as a condition of sale. As to whether the term “condition of sale’ should be given a legal construction or an ordinary common sense meaning, I would say that the EACCMA is an Act of Parliament and the words taken therein can either take a legal connotation or the ordinary meanings ascribed to them. In my view, the words should be given the meaning attributed to them in contracts relating to sale of goods. If the law maker had intended otherwise nothing would have been easier than to state that royalties and license fees should be added to the value of the goods for customs purposes”.

The Court went on to hold at page 44 as follows” As per the Trademark Licensing Agreement (TLA) the royalty payments are made on the sales proceeds after tax. The royalties paid are therefore too remote from the value of the imported goods”. The decision of the High Court of Kenya does not delve into the factors that ought to be taken into account in determining whether the royalties are related to the imported goods and whether the payment of royalties is a condition of sale.

To arrive at a clear appreciation of these factors, we will have recourse to Commentary 25.1, on *Third Party Royalties and Licence Fees from the World Customs Organization’s Technical Committee on Customs Valuation*, which provides guidance regarding the interpretation and application of Article 8.1 (c) of the Agreement in cases where a royalty or licence fee is paid to a third-party licensor unrelated to the seller. S. 122(6) of the EACCMA expressly provides that “in applying or interpreting this section and the provisions of the fourth schedule due regard shall be taken of the rulings, opinions, guidelines and interpretations given by the Directorate, the World Trade Organisation or the Customs Cooperation Council.” Paragraph 9(1) (c) of the Fourth Schedule of the EACCMA, is in *parimateriawith* Article 8.1 (c) of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 (Customs Valuation Agreement).As a signatory to the World Trade Organization, Article 8.1 (c) of the Agreement on Implementation of Article VII of the General Agreement on Tariffs and Trade 1994 (Customs Valuation Agreement), was made a part of the domestic laws of Uganda, as Paragraph 9(1) (c) of the Fourth Schedule of the East African Community Customs Management Act, 2004. Commentary 25.1 reads as follows:

“COMMENTARY 25.1

THIRD PARTY ROYALTIES AND LICENCE FEES

• GENERAL COMMENTARY

1. The purpose of this document is to provide guidance regarding the interpretation and application of Article 8.1 (c) of the Agreement in cases where a royalty or licence fee is paid to a third-party licensor unrelated to the seller.
2. Under Article 8.1 (c). royalties and licence fees are to be added to the price actually paid or payable for the imported goods where they are related to the goods being valued that the buyer must pay, either directly or indirectly, as a condition of sale of the goods being valued, to the extent that such royalty or licence fees are not included in the price actually paid or payable.
3. A common issue occurring in international trade is where the royalty or licence fee is paid to a third party, that is, a party other than the seller of the imported goods.

Typically in these scenarios, the buyer/importer enters into a sales contract with the seller/manufacturer and also enters into a royalty or licence agreement with a third party licensor. In some cases, a royalty or licence agreement also exists between the licensor and seller/manufacturer.

4. For the purpose of making a determination under Article 8.1 (c), it is important to examine all the relevant documents, including the royalty or licence agreement and sales agreement. The royalty or licence agreement allows the owner of intellectual property rights (the "licensor") to earn revenue from an invention or creative work by charging a user (the licensee) a fee or royalty to use the licensed product. The royalty or licence agreement will generally specify what rights are being granted to the licensee; the terms agreed between the licensor and licensee such as the length of the agreement, prohibited uses, rights to transfer and sublicense, warranties, termination of the licence contract, support and maintenance services, quality control provisions, etc.; and details regarding the payment of the royalty and licence fee. By licensing an intellectual property right, the licensor assigns a limited right to use its intellectual property, such as trademarks, but retains its ultimate ownership right. The sales agreement will specify terms and conditions relating to the sale for export of the merchandise being imported. The information contained in these agreements, and other relevant documents, may be indicative of whether the payment of the royalty or licence fee should be included in the customs value under Article 8.1 (c).

5. Where a royalty or licence fee is paid to a third party, it is considered unlikely that the fee would be included in the price actually paid or payable under Article 1. For the purposes of this Commentary, it is assumed that the royalty or licence fees have not been included in the price actually paid or payable. The analysis therefore focuses on the two main questions that stem from Article 8.1 (c):
 - Is the royalty or licence fee related to the goods being valued; and,

- Is the royalty or licence fee paid as a condition of sale of the goods being valued?

Determining, whether a royalty or licence fee is related to the goods being valued.

6. The most common circumstances in which a royalty or licence fee may be considered to relate to the goods being valued is when the imported goods incorporate the intellectual property and/or are manufactured using the intellectual property covered by the licence. For example, if the imported goods incorporate the trademark for which the royalty or licence fee is paid, this would indicate that the fee relates to the imported goods.

Determining, whether a royalty or licence fee is paid as a condition of sale of the goods being valued.

7. A key consideration for determining whether the buyer must pay the royalty or licence fee as a condition of sale is whether the buyer is unable to purchase the imported goods without paying the royalty or licence fee. When the royalty or licence fee is paid to a third party related to the seller of the imported goods, it is more likely that the fee is paid as a condition of sale than when it is paid to a third party unrelated to the seller. There can be various situations where payment of royalties or licence fees is considered a condition of sale even when they are paid to a third party. However, each situation must be analyzed based on all the facts surrounding the sale and importation of the goods, including the contractual and legal obligations contained in relevant documents, such as the sales agreement and the royalty or licence agreement.
8. The clearest indication that the buyer could not purchase the imported goods without paying the royalty or licence fee is where the sales documentation for the imported goods includes an explicit statement that the buyer must pay the royalty or licence fee as a condition of sale. Such a reference would be determinative in

deciding whether a royalty or licence fee was paid as a condition of sale. The Technical Committee recognizes however, that the sales documentation may not include such an explicit provision, particularly when the royalty or licence fee is paid to a party unrelated to a seller. In this case, it may be necessary to consider other factors in order to determine whether payment of the royalty or licence fee is made as a condition of sale.

9. The Technical Committee is of the view that whether the buyer is unable to purchase the imported goods without paying the royalty or licence fee depends on a review of all the facts surrounding the sale and importation of the goods, including linkages between the sales and licence agreements and other pertinent information. The following are factors that could be taken into account in determining whether payment of the royalty or licence fee is a condition of sale:
 - (a) There is a reference to the royalty or licence fee in the sales agreement or related documents.
 - (b) There is a reference to the sale of the goods in the royalty or licence agreement.
 - (c) According to the terms of the sales agreement or the royalty or licence agreement, the sales agreement can be terminated as a consequence of breaching the royalty or licence agreement because the buyer does not pay the royalty or licence fee to the licensor. This would indicate a linkage between the royalty or licence fee payment and the sale of the goods being valued.
 - (d) There is a term in the royalty or licence agreement that indicates if the royalties or licence fees are not paid, the manufacturer is forbidden to manufacture and sell the goods incorporating the licensor's intellectual property to the importer.
 - (e) The royalty or licence agreement contains terms that permit the licensor to manage the production or sale between the manufacturer and importer (sale for export to the country of importation) that go beyond quality control.
10. Each case must be considered individually having regard to the relevant circumstances.”

The two main questions that stem from paragraph 9 (i) (c) of the fourth schedule of the EACCMA are the following; Is the royalty or licence fee related to the goods being valued; and, Is the royalty or licence fee paid as a condition of sale of the goods being valued?

In respect of the royalty or licence fee related to the goods being valued Paragraph 6 of the above mentioned Commentary provides that, the most common circumstances in which a royalty or licence fee may be considered to relate to the goods being valued is when the imported goods incorporate the intellectual property and/or are manufactured using the intellectual property covered by the licence. For example, if the imported goods incorporate the trademark for which the royalty or licence fee is paid, this would indicate that the fee relates to the imported goods. The question as to whether the imported goods incorporate the trademark for which the royalty or licence fee is paid is a question of fact.

At the trial, Mr. Charles Kadde, the applicant's sole witness, testified that the footwear imported by the applicant did not bear the Bata trademark. Mr. Kadde also testified under cross examination that the applicant imported the goods in question from Bata Kenya, Bata Singapore and Bata India. We find it hard to believe that Bata Kenya, Bata Singapore and Bata India would export shoes to Bata Uganda that did not bear the Bata trademark. We accordingly find that the footwear imported by the Applicant incorporated the Bata trademark and in accordance with paragraph 6 of the Commentary we find that royalties paid by the applicant to Bata Brands related to the imported goods.

It is necessary that for the royalties and license fees to be includible in the customs value that all the constituent elements of paragraph 9 (i) (c) of the fourth schedule of the EACCMA must be present. This was the position of the Supreme Court of South Africa in *Commissioner for the South Africa Revenue Service v. Delta Motor Corporation (Propriety) Limited*, Case Number 279 of 2001 (Supreme Court of South Africa, unreported) which involved the interpretation of Section 67 (1) (c) of the South African Customs and Excise Act 91 of 1964 which is in *pari material* with paragraph 9 (i) (c) of the fourth schedule of the EACCMA. The court in that case stated as follows "For paragraph (c) of section 67(1) to render a royalty or licence fee dutiable

all the constituent elements of the paragraph must be present, Absent any one, the provision is inapplicable..”We will accordingly proceed to determine whether the royalties were paid as a condition of sale of the goods.

The Tribunal has to ask itself, is the royalty or licence fee paid as a condition of sale of the goods being valued? Paragraph 7 of the Commentary 25.1 provides that “A key consideration for determining whether the buyer must pay the royalty or licence fee as a condition of sale is whether the buyer is unable to purchase the imported goods without paying the royalty or licence fee”. Paragraph 8 of the Commentary provides that:

“the clearest indication that the buyer could not purchase the imported goods without paying the royalty or licence fee is where the sales documentation for the imported goods includes an explicit statement that the buyer must pay the royalty or licence fee as a condition of sale. Such a reference would be determinative in deciding whether a royalty or licence fee was paid as a condition of sale. The Technical Committee recognizes however, that the sales documentation may not include such an explicit provision, particularly when the royalty or licence fee is paid to a party unrelated to a seller. In this case, it may be necessary to consider other factors in order to determine whether payment of the royalty or licence fee is made as a condition of sale”.

The question as to whether the sales documentation for the imported goods includes an explicit statement that the buyer must pay the royalty or licence fees as a condition of sale is a question of fact. This question can only be answered by looking at the sales documentation relating to the purchase of the goods in question. These documents would include invoices or contracts of sale. At the trial there was no evidence to prove that the sales documentation for the purchase of the imported footwear included an explicit statement that the buyer must pay the royalty or licence fees as a condition of sale. The documents submitted to court that related to the sale of the imported footwear were sample invoices for the payment of the royalties to Bata Brands for the years 2011-2013 and an invoice from Futura Footwear Limited in respect of Service fees for the provision of services from the South Africa regional unit. These did not have the explicit statement that the buyer must pay royalty fees as a condition of sale.

Paragraph 9 of the Commentary provides conditions in order to determine whether payment of the royalty or licence fee is made as a condition of sale. We will look at each of them in turn and determine whether the royalty payment made by the Applicant under the Licence agreement is a condition of sale.

The first condition is that there is a reference to the royalty or licence fee in the sales agreement or related documents. The respondent did not adduce evidence or sales documentation or the sales agreement or related documents which included a reference to the royalty or licence fee.

The second condition is that there is a reference to the sale of the goods in the royalty or licence agreement. We have perused both the Trade Mark License Agreement executed between the Applicant and Bata Shoe Company of (Kenya) Ltd on the 1st day of January, 2006 and the addendum dated the 1st day of January, 2009. However none of the above documents make reference to the sale of the goods.

The third condition is that according to the terms of the sales agreement or the royalty or licence agreement, the sales agreement can be terminated as a consequence of breaching the royalty or licence agreement because the buyer does not pay the royalty or licence fee to the licensor. This would indicate a linkage between the royalty or licence fee payment and the sale of the goods being valued. Clauses 10 and 11 of the Trademark Licensing Agreement relate to the termination of the Trademark Licensing Agreement and not to the termination of the sales agreement. The Trademark Licensing agreement does not indicate that the sales agreement can be terminated as a consequence of breaching the royalty or Licence agreement because the buyer does not pay the royalty or licence fee to the licensor.

The fourth condition is that there is a term in the royalty or licence agreement that indicates if the royalties or licence fees are not paid, the manufacturer is forbidden to manufacture and sell the goods incorporating the licensor's intellectual property to the importer. The Trademark Licensing agreement does not incorporate a term that prohibits the manufacturer from

manufacturing and selling the goods incorporating the licensor's intellectual property to the importer in the event that the royalties or licence fees are not paid.

The Fifth condition is that the royalty or licence agreement contains terms that permit the licensor to manage the production or sale between the manufacturer and importer (sale for export to the country of importation) that go beyond quality control. The Trade Mark Licensing Agreement does not contain any terms that permit the licensor to manage the production or sale between the manufacturer and importer that go beyond quality control. Paragraph 7 of the Trademark Licensing Agreement provides as follows;

"7. Quality Control

In order to assure that the rights granted to Licensee are being used in accordance with this agreement;

- a) Visits: Representatives of Bata Brands may, during normal business hours, visit and inspect the factories, distribution centres, retail stores or other premises of Licensee or any approved supplier of products to Licensee. Bata Brands may take samples of products or labelling or packaging found during the course of such visit and inspection.*
- b) Samples: Bata Brands may request that the Licensee provide or deliver to Bata Brands up to two (2) samples per season of any products bearing any of the Trade marks. Any samples so requested shall be shipped by Licensee to Bata Brands within 48 hours of the Bata Brands' request, at no charge to Bata Brands. Unless disapproved in writing, within ten (10) days of receipt, such products shall be deemed to have been approved by Bata Brands.*
- c) Removal of Trade Marks: Bata Brands may require Licensee to remove any of the Trade Marks from any of the products which, in the opinion of Bata Brands, prejudice or may prejudice the Trade Marks or any of them, or do not meet the manufacturing specifications of quality standards of Bata Brands and Bata Brands may further require Licensee to cease application of the Trade Marks or any of them to such products. In the event that Licensee fails to comply with such requirement, Bata*

Brands may require Licensee to forthwith cease production and or sale of such products.

d) Prejudice to Trade Marks: Bata Brands may require Licensee to effect any reasonable change in the design or method of production of any of the products if such products in the opinion of Bata Brands prejudice or may prejudice the Trade Marks or any of them and Licensee shall forthwith effect such change.

e) Approval required: Licensee shall not sell or distribute any products which have not been approved or deemed approved as to quality by Bata Brands in accordance with the provisions contained above.

It is clear from a reading of clause 7 above that it contains the usual clauses relating to quality control. None of the clauses contains any term permitting the licensor to manage the production or sale between the manufacturer and the importer.

With the exception of the first condition in respect of which no sales documentation were provided all the other conditions have been answered in the negative. We accordingly find that the payment of royalties by the Applicant to Bata Brands was not a condition of sale of the goods imported.

Having found that the payment of the royalties by the Applicant to Bata Brands was not a condition of sale of the goods imported we accordingly declare that the royalty payments made by the Applicant to Bata Brands are not subject to Customs duty under the provisions of paragraph 9(1) (c) of the fourth schedule of the East African Community Customs Management Act and we accordingly vacate the additional assessments of tax imposed by the Respondent.

Having decided as above we do not find it necessary to resolve the other issues in contention as the resolution of the first issue conclusively determines this Application.

The Applicant is hereby granted the costs of this Application.

Dated at Kampala this day of 2017.

DR. ASA MUGENYI
CHAIRMAN

MR. ALI SIRAJI
MEMBER

MR. GEORGE WILSON MUGERWA
MEMBER