

Brazil Strengthens Restrictions

Decisions result in tighter government grip; principles become secondary to other factors

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The position in Brazil today is that government authorities maintain a very tight grip over licensing of industrial property rights and technology transfer. This position was recently sanctioned by Brazilian lower courts which ruled that the National Institute of Industrial Property, known as INPI, is vested with "police powers" to examine the merits of license agreements.

As we all know, licensing is the result of the joint needs of licensors and licensees and when the government intervenes in the negotiations, there can be no doubt that the process will be anything but serene. Recent court actions in Brazil involving patent licensing and technology transfer are clear indications of the inevitable expected clashes between the government and licensors/licensees.

In both court actions recently instituted by Brazilian licensees versus INPI, the arguments were the same: on the part of INPI, the need to control, and on the part of the licensees, the refusal to accept the conditions imposed upon them.

INPI's basic argument in the court actions is that it has legal powers to control licensing when royalty payments are involved, because this has a reflex on the balance of payments and is therefore subject to governmental discretionary action. Another basic argument is that INPI must interfere and direct the will of the parties involved in the license agreement, in order that the contractual obligations and conditions are adjusted to what is held convenient to national economy.

Licensees' Argument

The licensees' basic argument is that INPI should restrict itself to "recording" the agreement, i.e. merely registering the agreement in the proper records. Arguments were presented by the licensees that delays in recordal were causing serious financial and technical problems by blocking the licensees' access to modern technology resulting in substantial reduction in billings and loss of markets to the subsidiaries of multinationals.

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Although these two court actions have not yet been finally decided, the two lower courts to which the cases were distributed found INPI's arguments acceptable. Appeals were filed. They are pending before the Federal Court of Appeals.

The Brazilian Government seems definitely inclined to exercise its full legal powers to control licensing negotiations which involve industrial property rights, not only due to severe economic implications but also to correct what has been identified as distortions and habits previously accepted as the rules of the game.

Since 1975, when Act 15 became effective, licensing of trademarks and patents has become a basic instrument for evidencing use of trademarks and working of patented inventions. Not many foreign companies owning industrial property rights in Brazil have quite realized the importance of licensing for the protection of these rights. They have either ignored the necessity to apply for recordal of license agreements or acted when it was too late to do so.

One point is definitely clear: Licensing plays a major and decisive role when a trademark or patent, owned in Brazil by a party other than the actual user, is attacked on the ground of nonuse. The nonexistence of a license agreement applied for or recorded prior to the cancellation action based on nonuse could mean the outright loss of very important trademark or patent rights.

A leading case is that of the trademark Citizen, registered for over 10 years in Brazil in respect of watches.

The owner of record of this mark in Brazil is Citizen Watch Co., Ltd., of Japan. For many years the Japanese company was represented in Brazil by Citizen do Brasil Comercio, Importacao e Exportacao Ltda., until recently the distributor and importer of the watches bearing the mark Citizen.

Request for Cancellation

A request for cancellation on the ground of nonuse was filed against the Citizen mark by Pan-Mundial Empreendimentos Imobiliarios, Comercio, Importacao e Exportacao Ltda., a company which is linked to Citizen do Brasil.

The picture is thus set: Citizen of Japan had to prove use of its mark in Brazil and, if it failed to do so, Citizen do Brasil would be the owner of the mark Citizen, as the result of an application to register the mark Citizen, strategically filed in its own name, and awaiting a decision of the cancellation action.

How has licensing come into the picture and what was the position taken by INPI in this case?

At the lower administrative level, INPI granted the cancellation request on the ground that the sales invoices submitted by Citizen of Japan, as evidence of use of the mark Citizen, were in the name of Citizen do Brasil and there was no license agreement between the Japanese and the Brazilian company. Therefore, the invoices could not be accepted as satisfactory evidence of use.

An appeal was filed to the president of INPI in which the Japanese company argued that Citizen do Brasil was not the manufacturer of the watches but the mere importer and distributor of the goods and thus the fact that there was no license agreement was irrelevant. Citizen of Japan also submitted with the appeal brief further invoices evidencing the fact that Citizen do Brasil extensively imported the goods bearing the mark, during the two-year period prior to the cancellation request.

At this second and final stage of the administrative proceedings, the appeal was examined by officials of the appeals section of INPI. Having analyzed the sales invoices presented by Citizen of Japan, the INPI examiner reached the conclusion that the Citizen watches were exported to Brazil by several companies, namely: Citizen Watches (H.K.) Ltd. (of Hong Kong); Citizen Trading Ltd. (of Tokyo); and Citizen Latinamerica Corp. (of Panama); none of which owned the mark Citizen in Brazil. The examiner acknowledged that in certain invoices Citizen Watch Co., Ltd. did in fact appear as manufacturer of the goods but the company that actually exported them to Brazil was Citizen Latinamerica Corp. of Panama.

Decision

The INPI examiner concluded that Citizen Watch Co., Ltd. did not prove use of the mark Citizen because what was required was proof that it had itself exported the Citizen watches to Brazil, and this was not evidenced by any of the invoices which were submitted. The cancellation decision was thus affirmed and the registration on the mark Citizen was cancelled at the administrative level. The matter will now apparently be reviewed by the courts.

The case should illustrate the urgent need to record a license agreement in a situation in which the owner of the industrial property right is not the manufacturer. However, the decision on the cancellation of the mark Citizen is in error because the watches are indeed manufactured by Citizen of Japan and therefore no license from the owner of the mark in Brazil to the exporters is required. There was evidently no need for Citizen of Japan to show that it had itself exported the goods to Brazil. The invoices indicating that the owner of the mark is the actual manufacturer in Japan should be sufficient to satisfy the use requirements in Brazil.

Present policies and decisions indicate that there is mounting pressure on foreign owners of industrial property rights in Brazil and it seems highly advisable that they should strictly abide by the established government guidelines. This conformity does not appear to be occurring in the area of licensing of industrial property rights where the rules of the game have

clearly been laid down by Act 15. Many foreign owners of industrial property rights in Brazil have apparently opted to overlook the importance of these guidelines or are reluctant to comply with them in their entirety. If this is actually so, they are taking a calculated risk. This could result in the loss of their rights in Brazil.

In the present context of economic differences between developed and developing countries it is believed that government intervention in licensing in Brazil could be bad for foreign licensors but good for Brazil. Why could it be bad for foreign licensors? Because it makes negotiations difficult by attempting to impose upon the licensor the acceptance and refusal of clauses which it would normally not go along with.

Why is it held good for Brazil? Because it strengthens the bargaining power of the licensee, analyzes the conditions under which the licensing is negotiated, eliminates the restrictions imposed on the licensee, encourages research and reduces or eliminates the amount to be remitted abroad.

Political Decision

Brazil has taken the political decision to control licensing. This can be a discomfoting vision in the eyes of the majority of the developed countries. It is nevertheless a reality that foreign owners of industrial property rights in Brazil should attempt to understand. This understanding should come hand in hand with a fierce and meticulous concern over adapting to existing legal requirements in Brazil in order fully to protect their industrial property rights.

The Citizen case should not be taken lightly, no matter what the final outcome might be. It could be a revealing symptom of present times in which two supposedly unequal parties, one "stronger" and more "developed" than the other, sever their business ties and the "weaker" and more "undeveloped" of the two, due to a technicality, has suddenly been given the opportunity to be in a "stronger" and less "undeveloped" position.

Everything indicates that the Brazilian company will not succeed in its attempt to own the mark Citizen for watches in Brazil. This is due to the fact that the Japanese company still owns the same mark Citizen for other goods which are closely related to watches. This should inevitably lead INPI to reject the application filed by the Brazilian company to register the mark Citizen in their own name.

Although it is highly unlikely that ownership of the mark Citizen for watches will switch from the Japanese to the Brazilian company, assuming this did happen, how unfair, if at all, would it be and what role, if any, does government intervention in licensing play in all this? It seems that the answers to these questions will vary considerably, depending on who has to gain or who has to lose in the particular situation.

It is not a matter of principles. Somewhere along the road principles have become secondary. What has become of primary interest in the world today are the economic, ideological and political implications. Only in these areas can we seek to find the answers to such queries.