Brazil's INPI Wins First Cases

Courts agree Patent and Trademark office may consider political and economic influences of actions

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The purpose of this paper is to outline the facts of and to inform on the very first court actions recently decided by lower Brazilian courts [1] involving technology transfer and patent licensing, subsequently to Brazilian Normative Act 15 of September 11, 1975.

Some of the information here presented might be considered of interest since it discloses background on the political and economic influences which are brought to bear on the Brazilian Patent and Trademark Office (herein referred to as INPI) on matters relating to licensing of industrial property and technology transfer. INPI found itself in the uncommon position of justifying certain requirements it had made during examination of the agreements and even having to confirm its authority to approve and record technology transfer and patent license agreements.

The objective of the plaintiffs in both court actions was simply to have the courts order INPI to cancel the requirements made and to order the recordal of the agreements, independently of any formalities or considerations regarding the merits of the agreements. According to the plaintiffs, INPI should restrict itself to "recording" an agreement, that is, merely to "write down or inscribe" an agreement in the proper records.

FIRST COURT ACTION AGAINST INPI

The first court action was instituted by Resana S/A Industrias Quimicas, a Brazilian company specializing in the manufacture of synthetic resins, which had begun negotiations in 1974 with the French company Sacilor — Acieres et Laminoirs de Lorraine, for the purpose of entering into a patent license agreement.

Resana chose the type of action known as a "writ of security" or "writ of mandamus" which is in the nature of an order from the court to a public authority to do something which it has not done or has declined to do. The Brazilian Constitution[2] states that a writ of security shall be granted to protect a right which is "liquid and certain" but which is not protected by habeas corpus, no matter who may be the authority responsible for the illegality or the abuse of power.

The following is an outline of the facts which led to the findings of the judge of the First Federal Court on the writ brought by Resana against INPI.

A draft of a patent license agreement was drawn up and submitted by the licensee to INPI for prior consultation, with a covering letter dated April 24, 1975, that is, a few months before the coming into force of Normative Act 15 which set the guidelines for agreements relating to technology transfer and patent and trademark licensing.

On August 8, 1975, after having examined the draft of the agreement, INPI wrote a letter to the licensee by means of which several requirements were made to place the agreement in acceptable form. The licensee replied on August 21, 1975, and commented on each of the official requirements. As a result of these requirements the licensee also renegotiated certain clauses of the agreement with the licensor, and on April 22, 1976, a new redrafted patent license agreement was submitted to INPI.

On April 24, 1978, one of the two Brazilian patent applications covered by the agreement issued to patent, and on June 11, 1979, INPI wrote to the licensee advising that several further requirements were being made in order to place the agreement in proper form for approval. These further requirements were based on Act 15 which was not in force when the first set of requirements was made.

Arguing in frustration that the delay in approving the agreement was causing serious financial and technical problems, the licensee decided to petition the court for a writ of mandamus to compel INPI to withdraw the requirements and record the agreement. In its petition to the court, Resana argued that it had a "liquid and certain" right to have the agreement recorded with INPI, and further argued that the writ of mandamus was the appropriate legal remedy to prevent "the arbitrary use of public power." The licensee stated that the non-recordal of the agreement in a short period had blocked its access to modern technologies, resulting in substantial reduction in billings and loss of the markets to subsidiaries of multinationals which can bring to the country new technologies with no loss of time and without INPI's interference. Concluding, Resana pointed out that the writ should be granted in view of INPI's alleged abuse of power.

INPI'S DEFENSE

As occurs in court proceedings of the type we are dealing with here, the judge referred the case to INPI for its comments. From the outset it was made clear by the Attorney General of INPI[3] that the writ of mandamus should not be decided on the basis of legal provisions, but rather in the light of political and economic considerations. The Attorney General explained that the recordal of patent license agreements is a subject

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which is included within the "police powers" of the state and thus is not governed by legal provisions from which a liquid and certain right can be claimed. He further commented as follows: The plaintiff in order to demonstrate any possible liquid and certain right should have analyzed in the court action each of the official requirements, and this it did not do precisely because there is no single legal provision which would conflict with the requirements made.

The Attorney General added that, in effect, the foreign contracting of patent license agreements calling for royalty payments has a reflex in the trade balance of payments and is therefore subject to governmental discretionary action, not only due to the necessity of controlling the flux of foreign currency, but also the limitations on national debt. He stated that since there is an unquestionable need to adjust the national development to the exchange balance, agreements which relate to foreign technology transfer are directly and inevitably linked to exchange policies. The recordal of the patent license agreement executed by the plaintiff is conditional upon registration with the Central Bank for the purpose of remittance of fees[4] and for the purpose of fiscal deductibilities of the amounts which are paid[5].

Still in the words of the Attorney General, the function of INPI when examining agreements involving foreign technology transfer consists of a process of intervention in the economic domain which finds a basis in Article 163 of the Brazilian Constitution[6]. This function is aimed at the protection of the state in relation to the public interest.

Discretionary Powers

The Attorney General went on to state that INPI is invested with discretionary powers governing the policies of foreign technology transfer which burden the national balance of payments. This therefore calls for the necessary adjustment to government policy relating to the development of the country. Illustrating his point the Attorney General quoted a study by a local textwriter[7] which reads as follows:

> There is no doubt that the importation of technology is a form of economic transaction like any other and all countries do it, depending solely on the state of development in which each country finds itself. But the nature of this operation, its convenience, its repercussions in the internal economy and in the balance of payments, imposes a necessity to analyze, to criticize and to find economic, financial and monetary options, which cannot be omitted by the official entities which are involved in the matter.

The Attorney General further pointed out that it is incumbent upon INPI to control the flux of technology not only from abroad to Brazil, but also within its boundaries. Such control is made to avoid the importation of technology which is already available in Brazil, or unnecessary to its present stage of development, with a view to encouraging the creation of national research and to protect companies which are provided with previously acquired technological knowledge. It is for this reason that the Code of Industrial Property[8] requires that all agreements which involve technology transfer should be submitted to INPI for recordal.

He added that the legal basis for INPI's authority to scrutinize agreements involving technology transfer is Article 126 of the Code of Industrial Property which states the following:

> For the purposes of Article 2, Sole Paragraph, of Law No. 5648 of December 11, 1970, acts or contracts which involve transfer of technology are subject to recordal in the National Institute of Industrial Property.

Reference to Law No. 5648 is, according to the Attorney General, is of great relevance since that law has conditioned the approval of agreements to the policies of economic development of the country. In effect, the sole paragraph of Article 2 provides that:

> Without prejudice to other attributions, INPI shall, taking into consideration the economic development of the country, adopt measures capable of accelerating and *controlling* the transfer of technology, and of establishing better bargaining conditions and use of patents, and shall also comment on the advisability of signing, ratifying or denouncing conventions, treaties, and agreements relating to industrial property.

The Attorney General stressed that it was evident that there can be no recordal of agreements involving technology transfer which do not adjust to the policies of economic development of the country, outlined in the National Development Plans, as well as in the norms established by INPI. The recordal of agreements involving technology transfer must be requested without the subjective right to recordal since this depends on certain verifications by INPI to the adjustment of government policies, resulting in the compliance with certain conditions which are governed by superior public interests. He added that technically there is a discretionary power, but not an arbitrary one, as the plaintiff alleges.

The Attorney General further stated that the examination and approval of technology transfer agreements are conditioned to their compatibility with economic policies and with the development of the country, and it therefore follows that there is no liquid and certain right to the recordal of such agreements. Since the plaintiff could not submit other evidence such as personal testimonies, etc., which are not acceptable in cases of writs of mandamus, the plaintiff deliberately avoided the analysis on the merits of each of the official requirements which were made. These requirements, he added, do not represent any illegality or arbitrary measures, and although the burden of showing that the requirements are irregular or illegal should be upon the plaintiff, the Attorney General stated that he was willing to demonstrate that the requirements agreed with the principles of political, economic, and juridical control to which recordal of license agreements must be subjected.

REQUIREMENTS OF INPI

The following are the official requirements of INPI enumerated during examination of the agreement, and the justification of each requirement by the Attorney General of INPI:

> (a) *"Modify item 11.1 in a manner which will link the obligation to pay royalties to the term of the patent."*

Justification by the Attorney General: the patent license agreement which involves technology transfer has as its object the exclusivity of commercialization of the LISA PROCESS covered by Brazilian Patent

Application No. 4008/72. The agreement provides in Clause 11.1 for the payment of royalties for the term of 10 years. However, the term of the patent resulting from the said application expires on June 21, 1987, and therefore the term of expiry of the patent shall occur prior to the term within which royalty payments must be made and this is not permitted by law. Article 30 of the present Code of Industrial Property states that the recordal of the agreement shall not produce effect, insofar as royalties are concerned, when it refers to a patent which has not been granted or when the patent is extinct or is the subject of nullity or cancellation proceedings. There is, therefore, an express provision in the Patent Law which prohibits the payment of royalties if the patent is not granted or after the term of the patent has expired.

Another official requirement which was made is the following:

> *(b) "Delete from Item 5.2 the paragraph by means of which RESANA (the licensee) undertakes not to register the trademark LISA."*

Justification by the Attorney General: it shows lack of good sense to cause obstacles to the regular exercise of the right to register a trademark since the present Code of Industrial Property does not grant a subjective right resulting from the prior use of a trademark by third parties. The fact that the licensee cannot register the trademark could imply that after the licensee has gained a considerable portion of the market, using a trademark which is not registered, and the use of which is compulsory in view of one of the clauses of the agreement, the licensor could secure registration and thus cause future obstacles to the business of the licensee, and this would result in an abuse.

The Attorney General went on to state that this policy of gaining clientele for third parties through the use of a trademark owned by a party other than the licensee is known to be harmful to developing countries, and this is acknowledged by the laws of Argentina and Mexico.

A further official requirement which was made is the following:

> *(c) "Modify item 14.2 in a manner that SACILOR (the licensor) shall be solely responsible for the onus resulting from any actions by third parties relating to infringement of the patents."*

Justification by the Attorney General: in a technology transfer agreement the supplier transfers the use of technological information for a certain fee. It is only natural that the supplier of the technology should guarantee the recipient against possible claims by third parties which cover the technological area of the information which is transferred.

To make his point clearer, the Attorney General explained that if the patent application filed by a third party has a subsequent date to the date on which the supplier already possessed the technological information, the patent resulting from said patent application should be null and void due to lack of the novelty requirement. In such a case the suppler of technology should file an opposition against the patent application, assuming the application is pending, or request nullity proceedings if the patent has already issued.

On the other hand, if the patent application filed in the name of the third party was filed prior to the possession of the technological information by the supplier, the said information becomes industrially unavailable since the third party who filed the patent application has exclusive rights over the invention, and the technology transfer agreement would thus lack any object, and the recipient must be given the guarantee that he shall not be responsible for court actions instituted by third parties due to infringement of industrial property rights.

Justification

Continuing his justification for this requirement the Attorney General added that it is true that Brazilian civil law permits the limitation of this guarantee by agreement between the parties. However, this is not the situation of the present case because it involves payments to a foreign country and thus goes beyond the simple scope of an agreement between private parties. Furthermore, since the matter involves technology transfer which is under constitutional and legal jurisdiction of the Brazilian public authority, the foreign supplier of the technology could not receive foreign currency for the furnishing to Brazil of "merchandise" which is of doubtful value or of no value at all, without assuming the responsibility for the juridical integrity of what it sells.

A further official requirement which was made is the following:

> *(d) "Reduce by 50%, the remuneration established in item 11.1 in view of the fact that Patent Application No. 3172/73 was ordered abandoned."*

Justification by the Attorney General: the agreement as it was originally submitted for prior consultation included the licensing of two patent applications which the applicant hoped would be granted by INPI. Subsequently, one of the patent applications was ordered abandoned and this has not been contested. It would thus be inconceivable if the payment of royalties were authorized in respect of a patent which was not granted. Public interest must again prevail. If the plaintiff alone were responsible for the payment he could be free to pay for a non-existing right. However, the Country (Brazil) is responsible for the payment and this affects exchange reserves. It is for this reason that the requirement has limited the payment to the single patent which has been granted in Brazil. Although it could be argued that reduction should not be on the basis of 50%, but rather on some other percentage, this is of difficult determination due to its complexities and in a writ of security such matters as discussions involving proportions are not acceptable since they depend on the submission of evidence.

The Attorney General concluded by stating that the examination of the agreement by INPI is a consequence of attributions expressly mentioned in the law. Since INPI has been granted the powers to examine agreements relating to technology transfer in order to ascertain whether recordal should be effected, this results in the authority to make the pertinent requirements or to refuse recordal. The extensive analysis of each of the requirements made has shown, according to the Attorney General's opinion, that there has been no abuse of any right since all requirements made are undoubtedly pertinent.

COURT'S DECISION

After having summarized the main points of the case, the judge stated that the matter hinges on whether the official requirements which were made are new requirements, whether they are repetitions of previously made requirements, or whether they refer to new clauses which were introduced into the agreement, and which were not part of the original draft which was submitted to INPI for prior consultation.

The judge stated that there could be no doubt that INPI has the power to examine the agreement based on political and economic criteria. This, the judge stressed, is unquestionable in view of the provisions of Article 126 of the Code of Industrial Property and of Law No. 5648.

The judge commented on each of the official requirements which were made. With regard to requirement (a), the judge compared the draft of the original agreement with the agreement in final form and stated that the clause which was objected to by INPI did not appear in the original draft, having been added subsequently to the submission of the draft.

With regard to requirement (b), the judge stated that the clause of the agreement which caused this requirement already appeared in the original draft of the agreement and was not objected to by INPI.

With regard to requirement (c), the judge stated that the clause of the agreement which caused this requirement already appeared in the original draft of the agreement and was not objected to by INPI.

With regard to requirement (d), the judge stated that the agreement refers to two patent applications which were filed in Brazil. Since only one patent application was granted, the other application having been rejected, the total payment of royalties is not justified considering the issuance of only one patent.

The judge concluded the decision by stating that two requirements must be complied with. The first is requirement (a) because it relates to a clause which was added to the agreement subsequently to the submission of the original draft. The second is requirement (d) because only one patent issued and the agreement called for royalty payments in respect of two patent applications. The judge thus rejected the writ and ruled that, for the agreement to be recorded, the two said requirements must be complied with.

2ND COURT ACTION AGAINST INPI

This suit was brought by Royal Diamond Dieletricos S.A., the Brazilian licensee that had executed a technology transfer agreement with the French company SEG Societe d'Exploitation Generale de Produits Industriels. The agreement was submitted for recordal with INPI on June 23, 1978, and on April 6, 1979, INPI made several requirements.

Like the previously discussed court action, the plaintiff, by means of a writ of mandamus, requested the court to order INPI to cancel the requirements and record the agreement since INPI had exceeded its powers, and because the requirements had no basis in the law.

INPI's Defense

In defense, INPI submitted substantially the same arguments as it had in the previous lawsuit and summarized each one of the requirements made which are as follows:

> (e) *"Delete from the agreement any reference to patents and grant of rights."*

Justification by the director of the Technology Transfer Department[9]: industrial property rights, such as trademarks and patents, and rights resulting from non-patented technology are two entirely different things. Constitutional protection which is granted to patents does not embrace technological knowledge. The legal protection which the owners of technology have available relate to the repression of unfair competition[10]. In technology transfer agreements there is also the protection established by the norms of private law which regulate disputes between private parties.

The director further stated that, in view of the differences between industrial property rights and rights resulting from non-patented technology, it is essential that a distinction be made in the terminology used in technology agreements which should not refer to language used in patent license agreements. It is necessary to clearly establish the limits between industrial property and technology rights. The grant of rights would only be possible in a patent license agreement and the owner of non-patented technology does not have the exclusive right to manufacture and sell any products, and therefore he cannot grant such a right.

Another official requirement which was made is the following:

> (f) *"If the object of the agreement includes patents and/or patent applications in Brazil, a specific royalty-free agreement must be submitted in accordance with Normative Act No. 15, where it must be stated that future patents are the object of patent licenses, equally royalty-free."*

Justification by the Director of the Technology Transfer Department: the French company has undertaken to grant royalty-free licenses referring to past, present and future patents. In view of this undertaking, INPI has requested that the parties should ratify in a separate document, and in the same conditions which have already been agreed upon, the license or the commitment to license, and it would be absurd not to preserve this benefit obtained by the Brazilian company.

Another official requirement which was made is the following:

> (g) *"Include in the agreement an estimate of the expenses provided in item 3.4 and 3.5, stressing those which will be paid in cruzeiros."*

Justification by the Director of the Technology Transfer Department: it seems reasonable to request an estimate for payment in local and foreign currency for those expenses which constitute an indirect form of effecting payments abroad which are not authorized.

Another official requirement which was made is the following:

> (h) *"Establish in Clause 5 that the confidentiality clauses shall last for a maximum of five years counting from the receipt of each information."*

Justification by the Director of the Technology Transfer Department: the bill prepared by UNCTAD of the Code of Conduct for Technology Transfer states that it is a restrictive commercial practice to prohibit or restrict the use of technology after the normal expiry term of the agreement. It is also a form of restriction on free trade and is included as an abusive practice prohibited by the Brazilian Antitrust Law[11]. In effect, to demand that the recipient of the non-patented technology should not use it after the expiry of the term of the agreement is to grant to the supplier the property of the technical knowledge and this property can only be granted to the owner of a patented invention, and only on a temporary basis. However, more important than the abuse of economic power employed in the eternal secrecy of the information obtained is the negative effect on the System of Industrial Property resulting from the prohibition.

The director further stated that it would be detrimental to the public interest if a clause of eternal confidentiality were accepted since this would prevent the disclosure of knowledge necessary to the national development. This is understood in a developed country like the United States[12] and should be all the more so in Brazil.

Another official requirement which was made is the following:

> (i) *"Reduce the term of the Agreement to five years counting from December 1, 1977."*

Justification by the Director of the Technology Transfer Department: the limitation of the term of the agreement relating to non-patented technology is based on the intensive technological evolution of our days. This is confirmed by the laws of Argentina[13], Ecuador[14], and Venezuela[15]. Brazilian legislation[16] also establishes the same term of five years for the grant of fiscal deductions in agreements relating to non-patented technology transfer. Act 15 also establishes the term of five years which can be renewed[17].

The director concluded by stating that the writ of mandamus should be rejected since the examination of the agreement by INPI is a result of attributions granted by law. The mere recordal without examination would not be acceptable and the justification of each of the requirements has shown that there has been no abuse of any right.

COURT'S DECISION

As in the previously outlined court action, the judge in this case summarized the main facts of the case and decided that INPI is legally competent to regulate technology transfer and this implies in the examination of agreements, taking into consideration the national interest and the required adjustment to economic development policies.

The judge concluded that there has been no attack on any liquid and certain right which could be removed by means of a writ of mandamus which was thus rejected.

CONCLUSION

The two court actions, the first of their kind ever since Act 15 became effective, clearly show the basic and crucial points of the disputes. On the one side, INPI's concern with the burden on the balance of payments, and on the other, the plaintiff's impatience with delays in recordal proceedings. Quite naively, the plaintiffs, both Brazilian companies, argued that INPI has no authority to examine the merits of technology transfer agreements and should restrict itself to "recording" the contracts. This was brilliantly and successfully refuted by INPI Officials.

Both judges of the federal courts in Rio de Janeiro were of the opinion that INPI is invested by law with "police powers" to examine the merits of technology transfer agreements, and the official requirements made by INPI to place the agreements in acceptable form did not constitute any abuse of power or violation of a liquid and certain right which might require remedy by a writ of mandamus.

However, the matter would appear to call for further thought. INPI's Director of Techology Transfer stated, when justifying the reduction of the term of the agreement to five years, that "limitation of the term of the agreement involving non-patented technology transfer is based on the intensive technological evolution of our days". It is for this precise reason that the first plaintiff decided to bring action against INPI. The delay in recordal was causing serious problems to the company although it must be admitted that if the first plaintiff had not included new clauses in the agreement, subsequently to the first set of requirements, recordal might have taken place earlier. Once INPI has issued requirements to adapt the agreement, it is advisable to comply with official actions without adding any new subject matter to the agreement. This can save unnecessary delays.

It cannot be denied that delays in approval and recordal of agreements can be, and are, absolutely fatal in a competitive market. Quoting the plaintiff, "the non-recordal of the agreement prevented access to modern technologies with substantial reduction in billings due to lack of marketing of new products."

Expeditions Recording

It therefore seems logical to conclude that it is imperative that agreements should be recorded in the most expeditious manner possible. Concern with the balance of payments deficit is, of course, well justified. But care should be taken not to react in a manner which is not proportional to the real facts. We do not believe that remittances for technology transfer by local enterprises to foreign suppliers, represent a significant percentage of the total cost of the country's exchange expenditures. If Brazilian companies are to be strengthened to face world markets they must have access to modern and advanced technologies. Brazil's export drive would be meaningless if Brazilian products could not competitively participate in international trade. For this to be accomplished, foreign technology which can be effectively absorbed and be well adapted to the country's development, is a must.

This recently has been recognized by the Governments of Chile and Argentina where policies are now less rigid. Foreign exporters of technology had reached the conclusion that due to severe restrictions imposed by the laws of these countries, they had no other alternative but to look to other more propitious ground for their know-how. It must therefore be concluded that excessive rigidity in legislation and policies can only result in the possession of second-rate technology. By this we do not mean to imply that INPI should record any and all agreements. A reasonable and sound policy of selection of technology which is of interest to the country should, of course, be adopted to make possible exports of products incorporating modern technology.

The time thus seems ripe for more flexibility in the application of Brazilian policies to technology transfer agreements, and quicker approval and recordal of those agreements which will truly contribute to the country's wealth and prosperity.

NOTES

1. The decision of the judge, Dra. Tania de Melo Bastos, of the 1st Federal Court in Rio de Janeiro, was rendered on November 27, 1979, and the decision of the judge, Dr. Jose Gregorio Marques, of the 7th Federal Court in Rio de Janeiro, was rendered on March 19, 1980.
2. Article 153, paragraph 21, of the Constitution of the Federative Republic of Brazil.
3. Dr. Nelson Fagundes de Mello, Attorney General of the Brazilian Patent and Trademark Office (INPI).
4. Article 9 of Remittance of Profits Law No. 4131 of September 3, 1962.
5. Article 177, Paragraph 30, of the Income Tax Regulations.
6. Article 163 of the Brazilian Constitution reads as follows: "Intervention is permitted in the economic domain and in the monopoly of a certain industry or activity, by means of federal law, when indispensable due to reasons of national security or in order to organize a sector which cannot be developed with efficacy under the principles of competition and with freedom of initiative, the rights and individual guarantees being assured."
7. Carlos Guimaraes de Almeida — "Aspectos da Execucao do Codigo da Propriedade Industrial" in Revista de Direito Mercantil No. 13, page 46.
8. Law No. 5772 of December 21, 1971.
9. Dr. Mauro Fernando Maria Arruda, Dictor of the Technology Transfer Department of INPI.
10. Article 178, XI and XII of Decree-Law No. 7903 of August 27, 1945 in force as a result of Article 128 of the present Code of Industrial Property.
11. Article 2 (I,g) of Antitrust Law No. 4137 of September 10, 1962.
12. *Kewanee Oil Co. v. Bicron Corp.* 478 F. 2d 1074,178 USPQ 3.
13. Article 13 of Law No. 21617 of August 16, 1977.
14. Article 1 of Decree No. 1875 of September 27, 1977.
15. Article 65 of Decree No. 2442 of November 8, 1977.
16. Article 126 of Law No. 4131 of September 3, 1962.
17. Item 5.4 of Act 15 states that the term of a technical-industrial cooperation agreement may be "at the most 5 year counting from the actual commencement of production, but may be extended."