Brazil's Normative Act 17

Patent Office's new Act 17 introduces curious definition of 'public domain'

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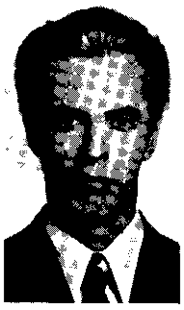
Recent developments seem to indicate that the advisability of filing patent applications in Brazil should be considered from a yet unexplored angle.



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Although general guidelines for drafting agreements for transfering technology were issued by the Brazilian Patent Office in Normative Act 15 dated September 11, 1975, the Patent Office has now issued Normative Act 17 dated May 11, 1976[1] which, while dealing primarily with patents and patent applications, introduced a rather curious definition of the term "public domain."[2] It regards as being in the public domain any subject matter resulting from "technology not protected by patents" and also from "technology comprised within the state of the art." Act 17 states that since there is no possibility of obtaining in Brazil patent protection for technology which is in the public domain, such technology may, from a legal point of view, be "exploited" by any person, irrespective of any authorization or remuneration.[3]

The reference to "technology not protected by patents" must, of course, be interpreted to mean all disclosed technology which is not covered by existing patents. Were this not so, there would be no purpose in recording in Brazil an agreement for the furnishing of technology, because according to Normative Act 15, such an agreement is one covering the acquisition of knowledge and techniques which are to be applied to the production of consumer goods or of inputs in general, but which are not protected by industrial property rights applied for or granted in Brazil.[4]

The interrelation between patents and technology was the subject of a speech by the president of the Brazilian Patent Office[5] in 1974. He stated that part of the necessary know-how is deliberately omitted from the claims of a patent, the object being to avoid complete disclosure of the "recipe of the cake." He added that if the know-how is new and can be utilized as a means to attain an industrial result, it is patentable, because if it is not new and is incapable of rendering an industrial result, it is in the public domain.

In many cases, of course, know-how is not and cannot be included in the claims of a patent. Not only would such an inclusion be contrary to patent practice, but in many instances it would present an impossible feat to accomplish.

Advantageous

But it seems that where this is feasible, it would be advantageous to file a patent application in Brazil when the subject matter includes patentable know-how. By entering into a patent license agreement which is linked to technology, the patentee-licensor would be assured of a longer term for the agreement than if only a technology agreement were involved. It would also apparently be possible to extend for a longer period the secrecy provision of the agreement.

Much would depend, however, on the degree of know-how which is involved in the patent license agreement. It is very likely that, if the manufacture of the product or the carrying out of the process covered by the invention requires a degree of technology which is considered insignificant or which can be absorbed by the licensee within a short space of time, the Patent Office might limit the period of secrecy of the know-how to a term shorter than that of the life of the patent.

The covering letter which must be submitted by the local licensee justifying the need for the agreement is an extremely important factor in convincing the Patent Office that the know-how is indeed required as a prerequisite to the exploitation of the subject matter of the patent and that the nature and degree of the technology is such as to require that it be furnished continuously up to the date of expiry of the term of the patent.

According to Normative Act 15, an agreement relating to furnishing industrial technology must always be of a "temporary nature" and although no specific term has been set, in practice it is normally never in excess of five years.[6] With regard to agreements for furnishing technical-industrial cooperation, however, Act 15 states that agreements shall also be of a "temporary nature" but adds that the term may be "at the most five years counting from the actual commencement of production, but may be extended."[7]

The term of patent license agreements, on the other hand, can be as long as 15 years in the case of a regular patent of invention and as long as 10 years in the case of utility model patents and industrial model or design patents.[8]

According to the present policy of the Patent Office, the recipient of transferred technology is normally only obliged to hold in secrecy information which he receives during the term of the agreement. Since the transfer of technology is considered to be an outright sale, no secrecy

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clauses can extend beyond the term of the agreement. It is therefore obvious that confidentiality clauses in a patent license agreement may be enforced for a longer period than if the agreement covers only unpatented know-how.

Basic Change

It is true that the present Code of Industrial Property[9] has introduced a basic change which has reduced the term of patents. The provision of the Code[10] which stipulates that the filing date of the patent application is the starting point for counting the term of the patent, has had a prejudicial effect on those patents which issued from applications which were pending when the present code became effective on December 31, 1971. For example, if the application was filed in 1965 and the patent issued in 1975, the patent is only effective up to 1980 instead of 1990. However, recent court decisions have indicated that it may be possible, in such cases, to extend the term of the patents, so that they shall run not from the dates of filing of the application but from December 31, 1971, when the present code became effective.

The Federal Court of Appeals, which sits in Brasilia, has decided one case involving the extension of the term of patents.[11] In view of the provisions of the present code, which state that the life of the patent is 15 or 10 years, depending on the nature of the invention, counting from the filing date of the application, the Patent Office held that the term of a utility model patent application which had been filed in 1957, and was still pending when the present code became effective on December 31, 1971, had lapsed due to the expiry of its legal terms.

The applicant petitioned the lower court for a Writ of Mandamus, ordering the Patent Office to reinstate the application. The plaintiff argued that the Code of Industrial Property which was in force at the time the application was filed assured him the right to a patent for a term counting from the date of issue of the patent and that this constituted a vested right which was protected by the Constitution.

The lower court dismissed the action and the plaintiff appealed to the Federal Court of Appeals. This court held that the filing of the application did constitute a vested right to secure a patent according to the conditions prescribed by the Code in force at the time the application was filed and therefore directed the Patent Office to reinstate the application and, if any patent issues therefrom, to grant the patent for a term beginning on December 31, 1971.

Other cases involving the same question are pending before the Federal Court of Appeals, which has three Branches or Divisions. The case just mentioned was decided by the 2nd Division. It is not known what position the other two Divisions will take, but it is not beyond the bounds of possibility that they may hold that if an application was filed prior to December 31, 1971, the term of the patent must be counted from the date of issue of the patent and not from the date of filing of the application.

One way or another, the extensions of the term of patents would obviously be beneficial to parties who are contemplating licensing their inventions in Brazil.

The Brazilian Patent Office has established that basically no export restrictions are allowed under any of the five categories of transfer of technology agreements outlined under Normative Act 15 of September 11, 1975.

However, there are exceptions to these export restrictions when the exclusion of certain foreign markets is permitted by industrial property legislation, or is required by specific legislation of the country of the party who furnishes the technology or is required by an International Act or Agreement to which Brazil is a party.

In actual practice, it is not certain how the Brazilian Patent Office will act in those cases which come within the scope of the exceptions mentioned above. However, it would be logical to presume that evidence would have to be submitted by the parties to justify the export restrictions to a certain country or countries, whenever those restrictions are specifically mentioned in an agreement. It seems advisable, whenever the agreement includes a restriction on exports, to submit evidence that would lend support to such a restriction.

For instance, regulations issued by the Office of Export Administration of the United States Department of Commerce, permit American companies to furnish foreign companies with certain technical assistance only in cases where such foreign companies give written assurance that, unless prior authorization is obtained from the Office of Export Administration, they (the foreign companies) will not knowingly export or re-export, be it directly or indirectly, to a certain group of countries, any technical assistance or product (including processes or services) under the agreement. Therefore, it is to be expected that, whenever specific mention is made in the agreement to the group of countries to which export is forbidden, the Brazilian Patent Office will request submission of a document or documents which evidence the export restriction. In the hope of avoiding the submission of supporting documents, the following wording could perhaps be used for a patent license agreement:

> "Licensee shall be free to export the 'Licensed Product' to all countries except to those (a) in which industrial property legislation prevents the import of the 'Licensed Product', (b) to which export of the 'Licensed Product' is prevented by specific legislation of the Licensor's country, or (c) to which export of the 'Licensed Product' is prevented by an International Act or Agreement to which Brazil is a party."

Although these exceptions to export restrictions are normally accepted by the Patent Office, the general policy is to prohibit any limitations on the Brazilian company's activities. For example, in a recent case involving an agreement for technical-industrial cooperation, the Patent Office ordered the deletion of a clause which prevented the recipient party from manufacturing the product outside Brazil. According to the Patent Office, such a restriction would only be possible if the product covered by the agreement is protected by industrial property rights in other countries. The Patent Office, in the particular case of the example, based the objection on provisions of the present Code of Industrial Property and on provisions of Brazil's Antitrust Law.[12]

The purpose of the present policy is to stimulate Brazil's export drive and it should be noted that Brazil is a supplier, in its own right, of technology to certain South American countries and to Africa. This is an unquestionable fact, particularly with regard to technology covering specific areas of activity, such as roadbuilding, oil prospecting and field engineering.

As a further incentive to exports, tax benefits are granted by the Brazilian government for technical services performed abroad by Brazilian companies. This, of course, not only contributes to improve Brazil's balance of payments but also encourages Brazilian companies to develop their own know-how in order to place them in a competitive position to qualify for international tenders or bids.

Specific legislation was enacted to provide for such tax benefits, under Decree-Law No. 1418 dated September 3, 1975 and more recently, income tax exemptions were provided under Decree Law No. 1446 dated February 13, 1976. The latter refers broadly to exemption of withholding income tax for services performed abroad for projects of outstanding national interest, among which are those involving "the design and specification of equipments to be imported or purchased locally (in Brazil) for the purpose of carrying out investment projects in Brazil." By granting such exemptions, on a case-by-case basis, Brazil would tentatively be in a position to compete abroad when exporting its products manufactured locally, using foreign technology.

The local licensee or recipient of industrial technology, technical-industrial cooperation or specialized services, is free to dispose of the technical data and information received from the foreign licensor or supplier, after the term of the agreement. No restrictions on exports of either goods or services are permitted. This is based on two fundamental principles which are a part of the government's general policy, namely (a) the recipient of the technology has paid for and therefore purchased, rather than obtained a license to use the technology and (b) by paying for the technology, the recipient becomes the virtual owner of the acquired know-how so that, once the agreement is terminated, it is free to dispose of such know-how by either supplying it to other parties in Brazil or exporting freely to other countries.

A recent court case in Brazil involving a dispute between a foreign company and a local licensee is worthy of note.[13] The case refers to an agreement covering the use of trademarks and know-how executed prior to the enactment of Normative Act 15. Basically, what occurred was that the original agreement was refused registration by the Central Bank of Brazil and the local licensee was unable to make any remittances to the foreign company under the terms of the contract due to the fact that registration was not approved by the Central Bank for remittance purposes.

As a result, the parties attempted to provide for such payment in local currency and this was also refused by the Central Bank. The licensor claimed a fine for breach of the agreement, but this was also denied by the court, on the ground that the agreement was not legally enforceable in Brazil. The court ruled that since the agreement was governed by Brazilian laws and regulations and subject to approval of the Brazilian government and this approval was refused, the agreement must for all practical purposes be considered as nonexistent and, as a result, all payments under the agreement were refused.

The alternative which the contracting parties attempted to use, that is, payment in local currency, was also turned down by the court on the grounds that this would constitute a reinvestment and as such, also subject to recordal by the Central Bank.

When turning down the registration of the agreement which originally provided for payment in foreign currency, the Central Bank mentioned as a ground for refusal of registration the fact that the proposed transferred technology was of limited relevance to the development of Brazil. The decision stated that in the particular area covered by the technology agreement, Brazil already had a sufficiently independent and diversified market enabling it to forgo the need of foreign technical aid.

The court also mentioned that since the local licensee was unsuccessful in securing registration with the Central Bank for payment in foreign currency, it attempted to establish that payments would be effected in local currency. Since the Central Bank also refused registration of the agreement for payment in local currency, and as registration with the Central Bank was a prerequisite for implementing the agreement in Brazil, the court ruled that the agreement was legally unenforceable in Brazil.

The court further ruled that, even if the parties had not included in the agreement a clause to the effect that they would observe and abide by all Brazilian laws, the agreement nevertheless would have to conform to "provisions of public policy, which the parties must necessarily accede to." The decision added that if the agreement is not enforceable in Brazil, by virtue of a decision of the competent governmental body (the Patent Office and the Central Bank in the present case), the foreign company would not be in a position to claim any damages for breach of the agreement.

Brazilian Normative Act 15 states that the amount of remuneration must be stipulated on the basis of certain parameters and must be directly linked to the commencement of the actual manufacture of the product resulting from the application of the technology. This means that the amount of remuneration will depend on certain factors, namely: (a) the degree of innovation of the technology, measured in accordance with the time at which it is known and when it is used; (b) the degree of complexity of the technology, by comparison, whenever possible, with techniques and processes for an identical purpose, from the same party who furnishes the technology or from other suppliers; (c) the "qualitative" level of the product resulting from the application of the technology, in the "context" of the market; (d) the constant and subsequent furnishing of updated information and technical data, particularly when the field is one in which technology is "dynamic," that is to say, is subject to constant development and the improvements cannot be protected; (e) the "tradition" and importance, in the particular field, of the party who furnishes the technology; (f) whenever applicable, the capacity for research and development of the party who furnishes the technology; (g) the type of production or "branch of activity" (business activity), in accordance with its degree of "essentiality"; (h) the term for the total transfer of the content of the technology and the term for the complete absorption of the technology by the recipient party.

There is no law which sets a limit to the amount of remuneration which may be paid by the party who receives the technology. In theory it should therefore be possible for the parties freely to agree on the remuneration which is to be paid and to stipulate, for example, that it shall exceed 5% of the net sales. Why then have the Brazilian Authorities limited the percentage to 5%?

This limitation is the result of the government's policy to reduce the cost of foreign technology, with the object of relieving the impact on the balance of payments. The Brazilian Patent Office feels that the maximum percentage which may be permitted as remuneration for technology received is the maximum referred to in Ordinance No. 436 of December 30, 1958.[14] This Ordinance, for Income Tax purposes, established the maximum percentages, varying from 1 to 5% of the invoice value of the articles to which the agreements refer, which are deductible as operational expenses by the Brazilian licensee in payment of royalties or fees for the exploitation of patents, the use of trademarks and the obtaining of technical assistance, etc. It has nothing to do with remittances and there is consequently no *legal* justification for the application of the said percentages to the remittance of royalties or fees for technical assistance, etc.

It therefore follows that if an agreement for furnishing technology provides that the amount of remuneration shall be 8% of net sales prices of the product manufactured in accordance with the technology which is furnished, such a provision should not, from a legal point of view, be objected to by the Patent Office. If objections are raised, the decision could be appealed, and if the President of the Patent Office confirms the decision it should be possible to take the matter to court. The outcome of such an action, however, is difficult to predict.

Another matter which requires consideration is the remittance of payments resulting from technology agreements. Once the agreement is approved and recorded by the Patent Office it is submitted to the Central Bank of Brazil where it is again analyzed, particularly with regard to the wording of the clause relating to remuneration.

Prior to Normative Act 15, certain agreements were accepted which provided that if, at the termination of the agreement, the recipient party still held in its possession certain unsold products manufactured in accordance with the transferred technology, the sale of such products would be subject to the payment of the royalties or fees agreed upon, even though the sale took place after the termination of the agreement. But the Central Bank of Brazil, when issuing a certificate of registration approving the remittance of fees resulting from an agreement which includes such a clause, adds a rider to the effect that remuneration shall only be due when the products are actually sold.

This is in line with present policy and with the guidelines of Normative Act 15 which state that the amount of remuneration must be based on actual sales. If products are held in stock after termination of the agreement it becomes impossible for the recipient party to remit any payments to the party who furnishes the technology.

When examining an agreement, the Central Bank may also demand that the conversion of Brazilian currency into the currency in which payment must be made to the foreign company shall be effected on the basis of the official rate of exchange prevailing on the date of the remittance of the amounts which are due. Clauses which provide that the total amount be paid in foreign currency is to be based on the rate of exchange in force on the date of sale of the products or on any other date will not be accepted.

Normative Act 15 does not contain any provision which prohibits the inclusion of an arbitration clause in transfer of technology agreements submitted for recordal at the Brazilian Patent Office.

It would appear that arbitration clauses providing for arbitration by renowned and reputable arbitration associations, such as The Inter-American Chamber of Commerce, the International Chamber of Commerce and other international arbitration associations are acceptable in transfer of technology agreements submitted for recordal to the Brazilian Patent Office and the Central Bank of Brazil, particularly since in Brazil there are branches or chapters of such international arbitration associations which conduct arbitrations.

Indeed, "off-the-record" information obtained recently from the Legal Department of the Patent Office indicates that no objection would be made to the inclusion of arbitration clauses in such agreements, provided they also state that the general terms of the agreement, including the arbitration clauses, are to be governed by and construed in accordance with the laws of Brazil.

This would mean that even if the contracting parties abide by the decision of the arbitrators, in conformity with the rules of whatever arbitration association is elected by the parties, the arbitration award would be effective between the parties after it has been "homologated" (validated) by a Brazilian Court, in accordance with provisions of the Brazilian Civil Code and of the Brazilian Code of Civil Procedure.[15]

An agreement which was recently approved by the Patent Office, contained an arbitration clause which states that the interpretation and application of the agreement shall be governed by the laws of Brazil and that the courts in Brazil shall have jurisdiction over the parties in the event of any controversy arising from the performance of the agreement.

The arbitration clause further states that any and all controversies or claims arising out of the agreement shall be resolved by arbitration established in the manner prescribed by Brazilian law, each party appointing one expert and the experts thus appointed jointly appointing an umpire if they fail to agree. The same clause provides that the foreign company must maintain in Brazil, during the arbitration proceedings, an attorney-in-fact with powers to receive service of summons and of process of enforcement of a judgement, as well as to sign the submission to arbitration. It also provides that service of process shall be had by publication of a notice ("edital") in the absence or nonavailability of such attorney-in-fact.

NOTES

1. Published in the Official Bulletin dated May 25, 1976.
2. Item 15.5 of Normative Act 17.
3. Item 15.5.1 of Normative Act 17.
4. Item 4.1 of Normative Act 15.
5. Dr. Guilherme Hatab.
6. Item 4.4 of Act 15.
7. Item 5.4 of Act 15.
8. Item 2.4 of Act 15.
9. Law No. 5772 of December 21, 1971.
10. Article 24 of Law No. 5772.
11. Otto Felts de La Roca v. the Brazilian Patent Office.
12. Article 29, Paragraph 2, of Law No. 5772 of December 21, 1971 and Article 2, Paragraph 1 (g) of Law No. 4137 of September 10, 1962.
13. Manpower Incorporated v. Gelre — Serviços Empresariais S.A. (Appeal No. 216989 —Saõ Paulo — December 1975.)
14. Issued by the Minister of Finances and published in the "Diário Oficial" of December 30, 1958.
15. Article 1045 of the Brazilian Civil Code and Articles 1096 and 1097 of the Brazilian Code of Civil Procedure.