

Patent And SMEs In Latin America: Brazil

By Cândida Caffé and Mariana Vicentini

SMEs in Brazil

The participation of Micro and Small Enterprises (SMEs) in the Brazilian economy is significant and growing: in 1985 SMEs represented 21% of Brazil's GDP, having increased to 23.2 percent in the year of 2001 and to 27 percent in the year of 2011.¹ In February 2017, SMEs were responsible for 54 thousand new hires, against approximately 26 thousand discharges by medium-sized and large companies.²

In accordance with statistics published in bulletins of the *Brazilian Micro and Small Business Support Service—SEBRAE* (a broadly known and respected non-profit private entity with a mission to promote the sustainable and competitive development of small businesses in Brazil), in 2011,³ SMEs corresponded to 98.2 percent of Brazilian private entities and 59.4 percent of the exporting companies of Brazil, representing 52.1 percent of formal jobs in the country. In the same year, SMEs were responsible for 4.2 million of rural producers and 17 million of formal employees.

SMEs' participation in the economy increased and in 2015,⁴ they corresponded to 98.5 percent of Brazilian private entities and 61 percent of the exporting companies of Brazil, representing 54 percent of formal jobs in the country. Still in 2015, SMEs were responsible for 4.7 million of rural producers and 17.1 million of formal employees.

The first law regulating the differentiated treatment rendered to small entities in Brazil was *Law No. 7.256*, edited in 1984.

Given their importance in Brazilian economy and seeking to contribute for the development and competitiveness of SMEs in the market, they are assured a differentiated judicial treatment by the *Brazilian Federal Constitution of 1988*, which determines that

1. Available at <https://www.sebrae.com.br/Sebrae/Portal%20Sebrae/Estudos%20e%20Pesquisas/Participacao%20das%20micro%20e%20pequenas%20empresas.pdf>.

2. Available at <https://www.sebrae.com.br/Sebrae/Portal%20Sebrae/Anexos/caged-fevereiro-2017.pdf>.

3. "Study and Research Bulletin of January 2016," *SEBRAE*, <https://www.sebrae.com.br/Sebrae/Portal%20Sebrae/Anexos/boletim%20estudos%20e%20pesquisas%20jan%202016.pdf>.

4. "Study and Research Bulletin of February 2017," *SEBRAE*, <https://www.sebrae.com.br/Sebrae/Portal%20Sebrae/Anexos/BEP%20fev%202017.pdf>.

these companies' administrative, tax, social security and credit obligations should be simplified or substantially reduced.

Although various laws were edited to deal with the legal treatment of small enterprises, they are currently regulated by *Complementary Law No. 123*, of 2006, also known as the "*General SMEs Law*."

The *General SMEs Law* establishes a series of simplified and beneficial treatment for SMEs, including a specific tax regimen—with lower taxes and facilitated procedures for tax calculation and collection—the reduction of bureaucracy for the establishment and maintenance of SMEs; and for labor related procedures; the possibility of filing court actions before Small Claim Courts and favorable treatment in public bids, such as assurance of preferred rights as a tie-breaking criteria.

In general terms, a company will be deemed as a micro or a small enterprise depending on its gross revenue. Further to the *General SMEs Law*, duly registered limited liability companies or individual entrepreneurs may be framed as Micro or Small entities, depending on their annual gross revenue, as follows:

- (a) **Individual Entrepreneurs** are duly registered self-employed individuals that do not participate in any entities neither as partner nor manager who have up to one employee and an annual gross revenue of up to R\$ 60.000,00 (sixty thousand Brazilian reais) until December 31, 2017 or up to R\$ 81.000,00 (eighty-one thousand Brazilian reais) as from January 1, 2018;
- (b) **Micro Enterprises** are those companies with an annual gross revenue of up to R\$ 360.000,00 (three hundred and sixty Brazilian reais);
- (c) **Small Enterprises** are those companies with an annual gross revenue higher than R\$ 360.000,00 (three hundred and sixty Brazilian reais) and lower than or equal to R\$ 3.600.000,00 (three million and six hundred thousand Brazilian reais) until

■ Cândida Caffé,
Dannemann Siemsen,
Partner,
Rio de Janeiro, Brazil
E-mail: ccaffe@
dannemann.com.br

■ Mariana Vicentini,
Souto, Correa, Cesa, Lummertz
& Amaral Advogados,
Senior Associate,
Rio de Janeiro, Brazil
E-mail: mariana.vicentini@
soutocorrea.com.br

December 31, 2017 or to R\$ 4.800.000,00 (four million and eight hundred thousand Brazilian reais) as from January 01, 2018.

Moreover, the *General SMEs Law* provides that companies with the characteristics listed below cannot be framed as SMEs, not being, therefore, qualified to enjoy the special treatment rendered to such kind of enterprise:

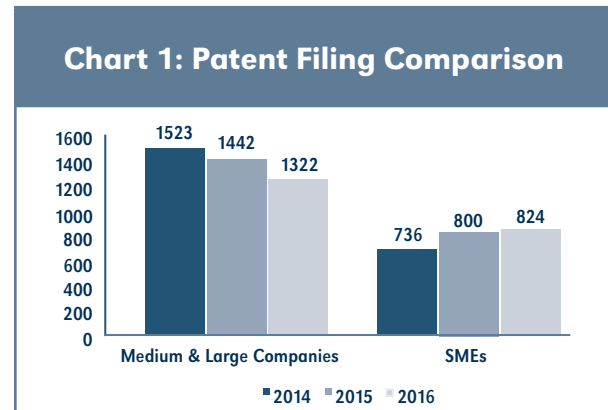
- (a) Companies having legal entities in their shareholder composition;
- (b) Brazilian branches, subsidiaries, agencies or representations of foreign entities;
- (c) Companies whose individual shareholders are registered as individual entrepreneurs or who are shareholders of other SMEs, if their global annual gross revenue exceeds the limits for being framed as SMEs;
- (d) Companies whose shareholders have equity participation exceeding 10 percent in other companies that are not framed as SMEs, if their global annual gross revenue exceeds the limits for being framed as SMEs;
- (e) Companies whose shareholders are managers of or hold an equivalent position in other entities, provided that their global annual gross revenue exceeds the limits for being framed as SMEs;
- (f) Cooperatives, except if a consumer cooperative;
- (g) Companies holding equity participation in other companies;
- (h) Companies that conduct banking, investment, financial or insurance related activities;
- (i) Companies resulting from spin-offs or other split operations in the preceding five years; and
- (j) Joint-stock companies.

Patents and SMEs

Since owners of patents are vested in exclusive rights of exploitation of their subject matter, the obtainment of such protection is an effective measure adopted by many companies, including SMEs, in the pursuit of a stronger position in the market. This is due to the fact that the obtainment of patent protection may, for example, aid SMEs in achieving competitive advantage; receiving additional income resulting from licensing or assignment of rights; entering in new markets upon licensing; accessing different technologies via cross licensing and attracting investments from third parties.

Although there is awareness of the importance and value of patents and their potential for business development of SMEs, the majority of patent filings are made by medium-sized and large companies, as shown in statistics published by the INPI.⁵ Regard-

less, SMEs patent filings have been increasing year after year, whilst medium and large companies' filings have been decreasing:



As an incentive for the development of SMEs and for the due protection of their industrial property rights and assets, the official fees of the services offered by the National Institute of Industrial Property (INPI) to such company category—including patent filing and recordal of transfer of technology agreements—contemplate discounts of up to 60 percent of the regular fees. These discounts are also extended to cooperatives, educational institutions, non-profit organizations and public entities.

In 2016, an additional initiative was adopted by the INPI to encourage patent filings and support innovation of SMEs in Brazil: the launching of Phase I of the “Patents SMEs,” a new pilot program for fast track examination of patent applications filed by Micro and Small Enterprises. With the launching of the Patents SMEs program, the INPI expected to reduce the negative impacts associated with their delay in the analysis of patent applications, which is a very sensitive aspect considered by patent applicants and which, many times, discourages patent filings, especially by SMEs.

It is worth mentioning that, in addition to the Patents SMEs, the INPI currently has five fast track examination programs, which are eligible for patent applications: (i) filed by the elderly, the physical or mentally disabled, the patients of serious diseases; in cases when the grant of the patent is a condition for obtainment of financial resources from official credit institutions; in cases when the subject matter of a patent application is being reproduced by unauthorized third parties; in cases when third parties are accused by a patent applicant of unauthorized reproduction of the application's subject matter (in this case, the fast track examination may be requested by the third party); (ii) covering green inventions; (iii) related to pharmaceutical products and processes, as well as to equipment and materials relevant to public health; (iv) filed through the Patent Prosecution Highway—PPH, according to the collaborative agreement signed be-

5. Available at <http://www.inpi.gov.br/sobre/estatisticas/estatisticas-preliminares-2013-a-partir-de-2013>.

tween the Brazilian PTO and United States Patent and Trademark Office—USPTO and the Japanese Patent and Trademark Office; and (v) from a family of patents initiated at the INPI.

The *Patents SMEs Program* is currently in its Phase II. Phase I of the Program was regulated by Resolution No. 160 of the INPI, published in February 2016 and, after the assessment of its positive results, the INPI issued Resolution No. 181 to regulate Program's Phase II, commencing on March 1, 2017 and valid for a period of one year or until 150 fast track requests are accepted; whichever occurs first.

The main requirements contained in *Resolution No. 181* for a patent application to be included in Phase II of the Pilot Patents SMEs are summarized below:

- The application was filed with the INPI at any date;
- The application related to an invention or an utility model;
- The application was filed in the name of an SME, as defined in *Complementary Law 123/2006*. In the event of multi applicant applications, all applicants are SMEs;
- The application does not lie within the industrial fields of “Performing Operations; Transport” (section B) or “Mechanical Engineering; Lighting; Heating; Weapons; Blasting” (section F) of the International Patent Classification;
- The application has already been published in the Brazilian Industrial Property Journal or, in the case of PCT applications, it has been accepted as eligible for examination in the national phase;
- Examination of the application has been accepted;
- Examination of the application has not been suspended awaiting compliance with a requirement previously issued by the INPI;
- No annuity fee payment is pending;
- The application is not *sub judice* (under trial or being considered by a judge).

SMEs may request the fast track examination of patent applications attending to the above requirements

of the Pilot Program upon filing an electronic petition before the INPI. Differently from other patent fast track programs offered by the INPI, no official fees are charged for a patent application to be examined under the Patents SMEs.

Statistics conducted by the INPI⁶ demonstrate that the Patents SMEs Program is, so far, successfully achieving its goal: while the INPI currently takes about eight years to render decisions on patent applications not eligible for fast track examination, patent applications analyzed under the Pilot Program have been decided within approximately eight months from the request of their acceptance into the Program.

Transfer of Technology Agreements and SMEs

Technology transfer agreements comprise patent, trademark and industrial design licenses, technology transfer, technical assistance services and franchise agreements. Thus, transfer of technology agreements may be an excellent tool for SMEs to either earn royalties or to expand to new markets via licensing or even franchising.

Transfer of technology agreements are valid and enforceable between contracting parties against one another regardless recordal at the INPI, which is indispensable only for the following purposes:

- To make the agreement effective against third parties (such as to, if set forth in the agreement, allow licensee to act in defense of the licensed IP assets and assure exclusivity of use of the IP assets by licensee);
- To allow remittance of payments to the foreign licensor; and
- To qualify local licensee for tax deductions, if the local licensee adopts the actual profit tax regime, which is not applicable for SMEs, whose taxes are accrued upon the simplified regime established in the General SMEs Law, and does not provide for deductibility.

Therefore, although SMEs frequently enter into transfer of technology agreements (especially for IP licensing and franchising), practice shows that these agreements are rarely submitted to the INPI for recordal. This cannot be avoided when it is necessary to remit royalties abroad though. The fact that such agreements are generally entered in a private fashion, somewhat hinders the assessment of how frequently they are in fact adopted by SMEs. Regardless, statistics published by the INPI demonstrate a decrease in the transfer of technology agreements of Medium and Large Companies in 2016 (as a reflection of the economic situation), against an increase of the same agreements of SMEs. ■

Available at Social Science Research Network (SSRN): <https://ssrn.com/abstract=3009329>

6. Available at <http://www.inpi.gov.br/menu-servicos/patente/exame-prioritario-me-epp>.

Chart 2: Tech Transfer Agreements

