

Technology Transfer In Brazil: A Guide To Licensing Foreign Technology In Brazil



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Introduction

In the modern economy technology has undoubtedly become an essential tool to enable a country to achieve a certain level of development. Investment in technology not only enhances and encourages scientific research but also makes the country a more attractive market for foreign investments. In addition, technology development improves the quality and speed of industrial production constituting a vital element for an emerging country like Brazil, enabling it properly to supply its internal market and to face its international competitors. In this perspective, the selling, transfer or even "rental" of a specific technology through the so-called Technology Transfer Agreements is seen in Brazil as an important economic and commercial negotiation which must both observe the applicable laws and be registered at the Brazilian Patent and Trademark Office (BPTO).

In Brazil, the acquisition of technology from developed countries is commonly used by national companies to make themselves more competitive and better able to face the international market. According to BPTO data base, in 2001 its Technology Transfer Board has registered 2,020 technology agreements, representing 20 per cent more than the previous year. The total amount of royalty remittances abroad for technology transfer was 11 percent higher in the year 2000 than in 1999 when they reached the equivalent of US\$1.987 billion. According to the Brazilian Central Bank US\$ 2.207 billion was remitted abroad in 2000 as a result of trademarks, patents, franchise and

other kinds of technology transfer agreements.

The majority of agreements recorded at the BPTO in the year 2000 were technical assistance agreements basically in the fields of chemical products manufacture (11%), metallurgic (10%) and automotive (8%). In 1998 and 1999 the scenario was not very different. The growth of remittances for technical assistance during the last decade can be explained by the privatization trend that took place in Brazil and the opening of the internal market for foreign investments mainly in the telecommunication, transportation, electricity and fuel sectors. It is reasonable that the foreign investor wants to bring technicians from overseas in order to implement properly new methods and equipment. Nevertheless, it would not be accurate to consider that in such case Brazil was acquiring technology from abroad. The genuine transfer of technology may be verified in agreements like a trademark and patent license agreements as well as technology supply and franchise agreements wherein there is a training and learning process by local technicians.

The BPTO has 32,000 registrations of technology agreements since 1972. However, it should be noted that the effective technology transfer character of such agreements is not necessarily as huge as it seems. As mentioned herein above the great majority of agreements recorded at the BPTO are technical assistance and related ones wherein the technology transfer content must be carefully examined.

The real technology transfer can be found in patent license and technology (know-how) supply agree-

ments and is extremely valuable for Brazil not only because it provides technology modernization for the local industry but also in view of the corresponding payment of royalties. The royalties are calculated with basis on the net sales of the goods produced by the licensee utilizing the technology and, therefore, if there are no sales, which add to the gross domestic product, there are no remittances abroad, establishing a mechanism in which any amount paid to the licensor is the result of licensee income that would not exist if there were no technology license.

In view of the above introductory scenario, the purpose of this article is to provide a general overview of licensing in Brazil and to offer advice on how to minimize unnecessary delays or rejection of the corresponding technology transfer agreements. Law n° 9,279/96, which took effect in 1997, is the intellectual property law that governs trademarks, patents and licensing, that is, the registration of technology trans-

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fer agreements in Brazil. Even though this law constructed a framework for technology transfer, foreign parties planning to license technology in Brazil should be aware that in order to update and to respond to first world countries' developments in this field the country is constantly improving its intellectual property system. The effect of this rapid change is that the BPTO often creates new rules, sometimes even non-written ones. As a result, registering technology transfer agreements in Brazil can sometimes be an unpredictable and frustrating experience. However, as Brazil gains momentum and power as a developing nation, it is crucial for parties seeking to license technology on a global scale to understand the Brazilian approach to technology transfer.

The Brazilian Patent and Trademark Office ("BPTO"), known in Brazil as the National Institute of Industrial Property ("INPI"), is the largest intellectual property office in Latin America. The BPTO is responsible for registering all patents, trademarks and technology transfer agreements. Royalty-bearing technology transfer agreements should be submitted for review to the BPTO. The BPTO may request additional information or clarification on the filing, and, in some cases, may reject the filing entirely. Except in the latter situation, the agreement will eventually be recorded with the BPTO, the effect of which is to permit it to be enforceable against third parties, accrue royalties and receive beneficial tax treatment. Following the agreement registration before the BPTO, the certificate of recordal issued by such office must be filed at the Brazilian Central Bank (BCB) for the royalty payments to be authorized.

Part I of this article sets forth the five different types of technology transfer agreements recognized by the BPTO and the documents required for each filing. Part II provides an in-depth explanation of the different types of agreements, accrual and payment of royalties as well as tax implications for licens-

ing foreign technology. Part III is a case study that illustrates a typical foreign technology licensing transaction between a Brazilian party and a foreign party and discusses the registration of the resulting technology transfer agreements with the BPTO.

I. Technology Transfer Agreements Recognized by the BPTO and General Filing Requirements

The BPTO recognizes five types of technology transfer agreements: patent license agreements, trademark license agreements, technology supply (know-how) agreements, technical assistance agreements and franchise¹ agreements. Parties interested in licensing foreign technology in Brazil, whether they are Brazilian or foreign, must file a technology transfer agreement for registration with the BPTO. On average, it takes the BPTO 40 days to review and record an agreement. Once the agreement is recorded at the BPTO, it is enforceable against third parties, royalty payments are remissible (as long as the procedure at the BCB is successful) and the Brazilian party becomes eligible to claim the royalty payments as tax-deductible items.

All technology transfer agreements and accompanying documents must comply with the BPTO registration requirements. The rules indicate that: (i) representatives of each party must initial all pages of the agreement and sign the final page; (ii) foreign parties should have the agreement notarized by an official Notary Public; (iii) the signature of the Notary Public must be legalized by the nearest Brazilian Consulate; (iv) two witnesses of any nationality or domicile must sign the last page of the agreement; and (v) each witness must list their full name, address and nationality.

Apart from submitting the agreement for review by the BPTO, the parties must file several other docu-

ments. If the agreement is between a Brazilian party and a foreign party or between two Brazilian parties, they must submit: (i) a simple Portuguese translation of the agreement – a translation by a public sworn translator is not required; (ii) the forms entitled "Requerimento de Averbação" and "Ficha Cadastro de Entidade" completed by the Licensee/Recipient or by their attorneys; (iii) a receipt verifying payment of the official filing fee; (iv) a power of attorney signed by the legal representative of either Licensor/Provider or Licensee/Recipient; (v) a copy of the bylaws of the Licensee/Recipient; and (vi) a letter addressed to the Technology Transfer Department of the BPTO briefly explaining why the parties entered into the agreement. In the event that both parties to the technology transfer agreement are foreign, the parties should submit: (i) the original version of the technology transfer agreement; (ii) a notarized copy thereof; (iii) its translation into Portuguese; (iv) the receipt verifying payment of the official filing fee; (v) a power of attorney and; (vi) a petition to be prepared by its attorneys.

In many cases, the parties will need to file more than one type of technology transfer agreement. Depending on the type of technology that is being transferred, the BPTO may only approve limited payment of royalties. Parties who file a patent and a trademark license agreement (when the trademark identifies the patent), a trademark and a know-how agreement (when the trademark identifies the know-how), a patent and a know-how agreement (when the know-how is necessary in order to effectively use the patent) or all three agreements may not be able to request separate royalty payments for each agreement. The BPTO views the above pairs of agreements as dependent, meaning that one agreement is considered to be a consequence of the other. From BPTO perspective, it would be unfair for the licensee to have to make separately royalty payments for each portion of an overarching business operation. Therefore, royalties

1. Franchising is regulated in Brazil by Law n° 8,955 of 1994.

paid on one type of technology provide consideration for use of the other. For example, a franchise agreement incorporates the corresponding trademark because the trademark is considered to be included in the agreement as a necessary tool for the franchiser. Brazilian Franchising Law includes trademark use into franchise agreements because it would be unfair to require the licensee to pay separately for the use of the trademark when a franchise and the corresponding trademark are inextricably linked.

An exception to this rule is when a party files a know-how agreement in conjunction with a technical assistance agreement. In that situation, royalties are payable on both agreements despite the fact that they relate to the same subject matter because technical assistance and know-how have separate functions and are considered as not dependent on each other. Another exception is if a party can demonstrate that a patent and a know-how can work well separately and are not necessarily connected to each other, in which case it may be possible to collect royalties for each agreement, subject to approval by the BPTO.

II. Explanation of the Five Types of Technology Transfer Agreements

The five types of technology transfer agreements have some differences in terms of filing requirements, tax treatment and royalties. Parties interested in prompt registration with the BPTO should take careful note of these differences to expedite the approval process.

A. Patent License Agreements

Parties who wish to license a patent issued by or pending with the BPTO must file a patent license agreement. The agreement should clearly set forth the application or registration numbers of the patent or patents and their respective titles.

Brazilian law permits accrual of patent royalties if the patent to be licensed is still pending with the BPTO. However, royalty payments may not be remitted until the patent

registration process with the BPTO is complete, that is, when the corresponding patent certificate is issued. While the application is pending with the BPTO, royalty payments may be deposited in an escrow account until the patent registration process is finalized and the BCB authorizes the remittance. After receiving approval from both institutions, the payments can be remitted to the Licensor. The Licensor can continue to collect royalties as long as the patent and, therefore the agreement, is in force. The expiration term of a patent in Brazil is 20 years.

The Brazilian tax ordinance, n° 436 of 1958 of the Treasury Ministry, governing technology transfer agreements, established deductibility ceilings for payments flowing between companies that have a parent/subsidiary relationship. The ceilings are a designated percentage of the net sales made by the Licensee of the products or services using the licensed patent, trademark or technology. For related parties, the maximum amount that may be paid by the Brazilian party to the foreign licensor is exactly the tax deductibility ceiling which ranges between 1% and 5% for patent license agreements. On the other hand, if no ownership interest exists between the parties, there is no tax deductibility ceiling imposed on the royalty payments owed by Licensee to Licensor. It should be noted that this policy creates a disincentive for both Brazilian and foreign parties considering a technology transfer transaction because of the negative tax implications for the Brazilian company and the payment caps the foreign company will have to accept. The tax ordinance, in effect since 1958, reflects a quite old protectionist mentality being a clear example of the Brazilian government's resistance to totally embrace the globalization of business.

B. Trademark License Agreements

Trademark license agreements stating the trademark application or registration number should be filed

with the BPTO. The approximate length of time between the filing of a trademark application and the issuance of a trademark registration is two years. There is an important difference in the treatment of royalties for trademarks and patents in Brazil. Whereas a patent license agreement may accrue royalties as soon as the patent application is filed with the BPTO, a trademark must be registered with the BPTO for royalties to accrue. This difference is explained by the attributive principle, a legal concept embraced by Brazilian law. Brazil follows the "first to file" system which dictates that priority rights to a trademark are given to the first individual to file the trademark with the BPTO. This system is different from the "first to use" system adopted by the United States, whereby trademark rights are given to the first party to use the trademark, regardless of which party initiates the registration process. In Brazil, an applicant has no property rights over a trademark until it is officially registered, that is, when the corresponding certificate is issued by the BPTO. In contrast, a patent affords the inventor an immediate property interest. Trademark royalty payments may begin only after the registration process is complete, and payments may continue as long as the trademark registration is in force. Trademarks are valid in Brazil for a period of 10 years and are renewable by the trademark owner for subsequent 10-year periods.

Trademark license agreements are subject to lower deductibility ceilings than patent license agreements, as the tax deductibility ceiling on trademark license agreements is always 1 per cent.

C. Technology Supply Agreements (Know-How Agreements)

Technology supply agreements cover the acquisition of know-how destined to the manufacture of industrial products and services. This type of agreement differs from patent license agreements insofar as the recipient has, in principle, the right to use the know-how royalty-

free upon expiration of a term that is usually of five or ten years, depending on whether the agreement is renewed. The reason behind this difference is that the BPTO views technology supply agreements as equivalent to a sale of technology while patent and trademark license agreements are considered agreements for rental of technology. Know-how licenses trigger payments for a term of no more than five years, after which time renewal for an additional five-year period is conditional upon a showing that the technology has been updated enough to merit continued payment of royalties for a second five-year term. Thus, upon expiration of a term of either five or ten years, the BPTO considers that the recipient owns the technology for which he had paid.

Know-how agreements receive the same tax treatment as do patent license agreements, and the deductibility ceiling ranges between 1 per cent to 5 per cent of the net sales.

D. Technical Services (Assistance) Agreements

Parties supplying and executing specialized services for which payment is to be received should file a technical services agreement with the BPTO. Typical activities covered by this type of agreement are transfer of technical information, planning and programming methods as well as searches, studies and specialized projects on how to perform the services and operate the technology. In evaluating this type of agreement, the BPTO requires submission of a detailed schedule setting forth the qualifications of the technicians, their hourly labor rates, and total number of hours worked. The payment term under this type of agreement may be fixed either as a lump sum or as a series of payments as long as the BPTO receives a schedule explaining the breakdown of fees. In addition, the BPTO should be notified of the time period during which the services will be rendered. In the event that the services are performed before the agreement and a schedule is filed with the BPTO, the parties should

include the starting and ending dates of the services.

If a technical services agreement is filed in connection with a patent or trademark license agreement, the tax deductibility ceiling applies, limiting the royalty payments remissible to the foreign party. However, if the technical services agreement is the only agreement to be filed pertaining to the foreign technology, Brazilian law does not impose a tax deductibility ceiling on the payments.

E. Franchise Agreements

The sole franchise agreement recognized by Brazilian Franchising Law n° 8955 of December 15, 1998 is the "business format franchise." This type of agreement covers the temporary acquisition of rights which involve the licensing of a business method that usually includes the license of trademarks and the supply of technical assistance services in combination with some other related technology transfer. This type of agreement is subject to the same tax regulations as the other agreements, but the deductibility ceilings may be more flexible regardless of whether the parties maintain a parent/subsidiary relationship.

III. Case Study

The following example demonstrates a business transaction that would necessitate multiple filings with the BPTO. A new American company ("Licensor") launches a business manufacturing and selling widgets in the United States. It immediately decides to expand its market to Latin America, specifically to manufacture and sell the widgets in Brazil. After consulting with its attorneys and some Brazilian business connections, it locates a Brazilian party ("Licensee") that is interested in manufacturing the widgets. The Licensor agrees to transfer its technology to the Brazilian company in exchange for royalty payments. Not only does the Licensor need to file a know-how agreement to cover the technology it supplies, it also must file a technical assistance agreement to cover

the process of teaching the Brazilian workers on the manufacture of the widgets through the knowledge of foreign technicians. In addition, the Licensor files patent and trademark license agreements authorizing and regulating the Licensee's use of the patent and trademark. Because all of the agreements relate to the same operation, royalty payments for the use of each piece of technology will probably not be approved by the BPTO.

The Licensor should first contact counsel that is either located in Brazil or is extremely familiar with the BPTO and its licensing procedure. In order for the patent and trademark to be enforceable in Brazil against potential infringers, the Licensor should file patent and trademark applications with the BPTO. The applications should be filed as soon as possible after the widget business first begins in Brazil since royalties related to a patent license agreement may begin to accrue as of that date. If the patent application process runs smoothly, the patent certificate should be issued in approximately two years. Since the Licensee will be using the patent during that time, the Licensor may request that the Licensee deposit the patent royalty payments in an escrow account for remittance following registration of the patent. Royalties do not accrue regarding the trademark until the corresponding trademark registration has been granted.

While the patent and trademark applications are pending, the parties can execute and file the technology transfer agreements so that the Licensor or Licensee, depending on which party has rights of enforcement, can enforce the patent and trademark against any third parties, royalties can be payable to the Licensor and the Licensee can receive tax benefits. The BPTO would probably refuse to approve royalties for each agreement because the entire transaction relates to the manufacture and sale of the same widgets covered by the patent application.

For example, the BPTO may only approve royalties on the patent, and

those royalties will be calculated based on a percentage of the net sales of widgets made by the Licensee. Because the parties do not have a parent/subsidiary relationship, there is no tax deductibility ceiling imposed by the government. The Licensor has more flexibility to designate the percentage of sales it wishes to collect as royalties, and, subject to BPTO approval, the Licensee can claim that entire amount as tax-deductible. After the BPTO approves the patent and patent licensing agreement, the BCB will authorize the proposed royalty payments. The BCB normally requires approximately two weeks to authorize the remittance of royalties. After this process is complete, the parties should be sure to notify the BPTO of any name, address or ownership changes.

Conclusion

While Brazil has not yet perfected its intellectual property system, tremendous progress has been made in recent years, especially with the new Intellectual Property Law, Law nº 9,279/96. As one of the most important developing countries, certainly the most relevant economy in South America and together with Mexico the most important in Latin America, effective technology transfer is paramount to Brazil's upward mobility in the international intellectual property arena and to global expansion of businesses.