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International Licensing: South America

Ricardo Pinho

Global Licensing Contracts

Global companies, with global licensing strategies, normally prefer to use "standard licensing agreements" for different jurisdictions. Although this preference is totally understandable, use of standardized agreements may bring some inconvenience for licensors and licensees in certain jurisdictions, especially in Latin American countries.

The vast majority of Latin America is made up by "civil code" countries, rather than "common law" countries, and although contracts can be freely negotiated and agreed by the parties, they will, under certain circumstances, be interpreted according to the relevant provisions of the respective civil code and applicable legislation. Many contractual provisions that are commonly used and applied in contracts enforceable in common law countries such as the United States, will not be enforceable in many Latin American jurisdictions. Some times, these provisions will be actually invalid and, depending on their relevance for the agreement, their invalidity might cause the nullity of the agreement itself, as a whole. This situation may be particularly true in relation to Brazil.

The Brazilian Law of Industrial Property (Law No. 9,279 of 1996) affirms that the Brazilian Patent and Trademark Office [INPI in its Portuguese acronym (Instituto Nacional da Propriedade Industrial] will register agreements relating to the license of patents, trademarks and technology (or know-how). Agreements licensing copyrighted material—and those licensing personal rights such as artistic names and images as in "celebrity agreements"—are not registered with the Brazilian Patent and Trademark Office.

The Law of Industrial Property mentions that such agreements are registered with the Brazilian Patent and Trademark Office in order to be "effective in relation to third parties." However, although the registration of the agreement with the Patent and Trademark Office makes them public to third parties, the PTO does not actually grant access to the agreements' contents to third parties. In at least two different instances, Brazilian courts ruled that an exclusive agreement registered with the Brazilian Patent and Trademark Office could be used by the trademark owner to block importation to the country by third parties of goods produced by authorized foreign licensees.

The Law of Industrial Property does not mention that a license agreement (relating to marks, patents or technology) between a foreign licensor and a Brazilian licensee must be registered with the Brazilian Patent and Trademark Office in order to allow the Brazilian licensee to remit royalties abroad (if the license is royalty free, then registration of the agreement with the Brazilian Patent and Trademark Office is not mandatory). This obligation to register with the agreement is set forth in one of the many Brazilian tax and fiscal laws.

Based on said tax and fiscal laws, the Brazilian Patent and Trademark Office imposes a series of limitations when registering licensing agreements, mainly when the parties to the agreement are a foreign parent company and its Brazilian subsidiary. The most common limitation imposed by the Brazilian Patent and Trademark Office relates to royalty ceilings: one percent for trademark license agreements and one percent to 5 percent for patent and technology agreements. The percentages are applicable over the total of net sales of the licensed products or services. In relation to patents and technology, the percentage varies according to the applicable industrial field.

The Brazilian Patent and Trademark Office also limits the validity term of technology (or know how) agreements to a maximum term of five years which, under special circumstances, can be extended to an additional period of five years. This is because, based on tax and fiscal legislation, the Brazilian Patent and Trademark Office interprets that the technology (or know-how) is transferred from the licensor to the licensee at the end of the validity term of the agreement—meaning that the licensee "owns" the technology after the agreement expires.

Finally, one last restriction imposed by the Brazilian Patent and Trademark Office refers to the fact that agreements licensing multiple intellectual property rights, for example, trademarks, patents and know-how, can only provide for royalty payments over just one licensed right rather than accumulate over all the licensed rights.

There are other limitations and restrictions that are imposed by the Brazilian Patent and Trademark Office based on the said tax and fiscal legislation, for example, the restriction of royalty payment only in relation to granted patents or registered marks, meaning that royalties will not accrue from licensed patent or trademark applications.

As mentioned, normally the restrictions and limitations imposed by the Brazilian Patent and Trademark Office are applied to license agreements between a foreign parent company and its local subsidiary. Nevertheless, it is not uncommon that, at its own discretion, the Brazilian Patent and Trademark Office also applies these limitations and restrictions in relation to license agreements between parties that are totally unrelated.

One may dispute whether or not the Brazilian Patent and Trademark Office are entitled to apply the provisions of the tax and fiscal legislation when registering license agreements or whether said rules can be imposed to unrelated parties. As a matter of fact, there are, currently, at least two court actions where the application of the tax and fiscal legislation by the Brazilian Patent and Trademark Office, as well as the application of their provisions to agreements between unrelated parties are being challenged in court, still without a final decision.

The above mentioned limitations and restrictions applied by the Brazilian Patent and Trademark Office when registering license agreements could be considered sufficient to stimulate global companies not to use "standard" licensing agreements in Brazil. But said limitations and restrictions are not the only reasons. Unfortunately, there are more.

Because Brazil is a "civil code" country, not only the license agreements which must be registered with the Brazilian Patent and Trademark Office have to comply with the provisions of the Brazilian Civil Code, but any agreements, in general, have to.

Normally, the provisions of the Brazilian Civil Code are very "reasonable" and the fact that a new civil code entered into effect in 2003 did not cause any adverse effects on the existing agreements or on new ones.

In fact, the new civil code reworded and clarified some provisions of the previous civil code, as well as brought some new provisions. The new civil code determined that contracts shall be interpreted according to the principles of good faith and in a manner to respect the real intention of the parties.

According to Brazilian civil law, the parties in a contract may determine the applicable law to govern the covenant and which courts would have jurisdiction over any disputes arising from the agreement. The parties may also opt to resolve the disputes by means of arbitration, either before an arbitration court in Brazil or abroad, in any event, either adopting Brazilian law or a foreign law. None of these rules were changed or revoked by the new Brazilian Civil Code; on the contrary, they were actually strengthened.

However, in a decision published in August 2008, the Brazilian Superior Court of Justice decided that a clause in a distribution agreement—between a foreign manufacturer and a Brazilian distributor—electing a foreign court as competent to rule disputes between the parties, was not enforceable in Brazil [Special Appeal No. 804,306-SP, Reporting Judge, Minister Nancy Andrighi.].

According to the ruling, because the object of the contract—distribution of the products manufactured by the foreign company in Brazil by the Brazilian company—was performed totally in the Brazilian territory, despite the election of the parties of the foreign court as competent, Brazilian courts had jurisdiction over the contract and the disputes arising there from.

The decision also affirmed that, although a court action had already been initiated by the manufacturing company in a foreign court, Brazilian courts were still competent to hear and rule on the case. In other words, the judgment by the Brazilian Superior Court of Justice ruled that any decisions rendered by a foreign court in such case would be unenforceable in Brazil, because only a Brazilian court could rule on the dispute, according to the provisions of Brazilian Introductory Law to the Civil Code.

The above understanding could similarly be applied to a licensing agreement when the object of the contract—use of the property in the country's territory—would be totally performed in Brazil.

Although Brazilian courts can rule a dispute resulting from a contract governed by a foreign law observing the foreign law and the ruling, in such a case would certainly be fair and sound, a foreign party would be burdened by litigating outside its home country.

In conclusion, it must be said that standard license agreements may seem to be more practical and easier to manage by a global licensing company; however, their enforcement in some jurisdictions, in relation to given clauses and provisions, may have some pitfalls. Therefore, before adopting a standard format to its licensing agreements, a global licensing company must request advice from its local counsel in order to adapt the standard contract to the "local flavors" and ascertain that it will be enforceable and, in the event that one clause is held invalid, the remaining provisions of the agreement will be kept in force.

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