

## Limitations on Marketing Foreign Technology in Brazil<sup>†</sup>

In this paper, the term "technology" includes patents, unpatented proprietary know-how, engineering and technical assistance and trademarks.

For many companies, their technology may be the most valuable property they own; and much of it may be the most fragile.

The marketing of this property is important. Protecting it is no less important. Both face growing difficulties and dangers in Brazil, as in most of the so-called "industrializing" countries. Finding ways to cope with this situation presents a real challenge to management and its legal advisors.

Provisions governing the protection of industrial property and the restrictions on its use and marketing are contained primarily in the Industrial Property Code of 1971<sup>1</sup> and the regulations promulgated by the National Industrial Property Institute (hereinafter called "INPI"), Normative Act No. 15, of September, 1975.<sup>2</sup> Other aspects are covered by the Income Tax Legislation and regulations,<sup>3</sup> and by the Profit Remittance Law of 1962, amended in 1964,<sup>4</sup> and its regulations.<sup>5</sup>

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<sup>1</sup>Law No. 5,772, of 21 December 1971, DOU-I of 31 December 1971, 35 *Lex* 1740 (S. Paulo, 1971), 10 *DERECHO DE LA INTEGRACIÓN* 209 (Instituto Para la Integración de América Latina, Buenos Aires, 1972). For citations to earlier legislation see NATTIER, "Investment in Brazil—A U.S. Lawyer's View," 1973 *PRIVATE INVESTORS ABROAD*, p. 198.

<sup>2</sup>Ato Normativo (Normative Act) No. 15, of 11 September 1975, *Revista da Propriedade Industrial* No. 256, of 16 September 1975.

<sup>3</sup>Law No. 3,470, of 28 November 1958, Art. 74, ¶¶ 1 & 2; Regulations, Decree No. 47,363, of 7 December 1959, Art. 37. *See also* Decree No. 58,400, of 10 May 1966, Arts. 174(d), (e) and (f), 175, 176.

<sup>4</sup>Law No. 4,131, of 3 September 1962, amended by Law No. 4,390, of 29 August 1964. *Cf.* Law No. 4,506, of 30 January 1964, Art. 52.

<sup>5</sup>Decree No. 55,762, of 17 February 1965, Arts. 14, 16.

This discussion will refer to those aspects of the legislation and regulations which are the basis of some problems which seem especially important: obtaining adequate payment for and assuring protection of foreign technology in Brazil.

### **I. Attitudinal Factors Affecting Marketing of Technology**

The climate for marketing foreign technology in Brazil has become progressively more restrictive. While the causes are many and complex, certainly one important factor is the shift in attitudes as between the developing and the industrial countries generally, and toward technology in particular.

#### *A. Delay*

Until the late 1950s the system in Brazil was relatively simple and free. The main problem then was delay, caused mostly by the fact that there were too few patent examiners, not all of them adequately trained, and by insufficient record systems and cumbersome procedures. It could, and still can, take up to six years for a patent or trademark to issue on an uncontested application, longer if there is an interference. Meanwhile, anyone able to do so can make the product or practice the process with impunity, although after the patent issues, the owner can seek compensation (probably not remittable abroad) for any unauthorized practice of the patent subsequent to the date application was filed.<sup>6</sup>

In fairness, one should note that the procedure can take three or four years in the United States.

Efforts have been made and are continuing to speed up the processing in Brazil,<sup>7</sup> but delay is still a problem.

#### *B. Income Tax*

The era of deliberate, or intentional, restrictions began in 1958, not with a change in the Industrial Property Law, but through the income tax. The tax authorities argued that some licensors were contacting for unduly high royalties and technical assistance fees, for which licensees claimed deductions, to the prejudice of the Brazilian Treasury. To plug the loophole, the 1958 income tax law imposed a ceiling, not on the royalties licensors could charge, but on the amount Brazilian licensees could deduct for tax purposes.<sup>8</sup>

The ceiling took the form of a sliding scale promulgated by the Ministry of

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<sup>6</sup>Industrial Property Code, *supra* note 1, Art. 23. Cf. Art. 30(a).

<sup>7</sup>Law No. 5,648, of 11 December 1970, DOU-I of 14 December 1970. NATTIER, *supra* note 1, at pages 198, 199.

<sup>8</sup>Law No. 3,470 *supra* note 3, at Art. 74, ¶¶ 1 and 2.

Finance in December of 1958,<sup>9</sup> which is still in effect, ranging from five percent of gross sales down to one percent. In practice the limitation has been an effective ceiling for all purposes.

The Profit Remittance Law of 1962 stepped up the restrictions and brought the weight of exchange controls to bear, in addition to the tax leverage. The ceilings which formerly applied only to tax deductions now likewise limit what can be remitted abroad.<sup>10</sup>

The Remittance Law also introduced the rule that no royalty in any amount for the use of patents or trademarks can be remitted or deducted for tax purposes by a licensee which is controlled directly or indirectly by the foreign licensor.<sup>11</sup> As will be noted shortly, it reduced even more the period during which royalties can be remitted. On the plus side, it liberalized somewhat the treatment of technical assistance agreements.<sup>12</sup>

It is worth observing that when the Remittance Law was amended in August, 1964, several of the most restrictive provisions affecting foreign investment were modified, but little change was made in the restrictions on marketing technology.

### C. Property Restrictions

The third and present phase, the era of "aggressive" restrictions, began with the 1971 Industrial Property Code and was expanded in a number of respects by the regulations issued by the National Industrial Property Institute in September, 1975, known as Normative Act No. 15.

The new restrictions, which are simply added on to the earlier ones, present a composite of severity which is difficult to reconcile with expressions of welcome to foreign investors which are seen in other contexts.

This growing body of obstacles to the marketing of foreign technology unquestionably reflects the shift in attitude toward that technology, which in turn grows out of impatience with the relatively slow pace of industrialization of most of the developing world, frustration with what is seen as continuing dependence on technological developments in the industrialized countries, an anxiety to develop indigenous technology, concern over the cost of importing technology, and a feeling that somehow, although foreign technology is indispensable, these problems can be remedied or at least alleviated, by measures which are essentially political in nature.

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<sup>9</sup>Ministry of Finance, Portaria (Regulations) No. 436, 30 December 1958. See Teixeira, *Foreign Technology in Brazil*, 54 BRAZILIAN BUS. 35, 39 (American Chambers of Commerce for Brazil, November 1975).

<sup>10</sup>Profit Remittance Law, *supra* note 4, Art. 13.

<sup>11</sup>*Id.*, Art. 14.

<sup>12</sup>*Id.*, Arts. 12 and 14. Altman, *Investing in Brazil*, 52 BRAZILIAN BUS. 36, 39 (American Chambers of Commerce for Brazil, April 1973).

Some experienced observers feel that these obstacles suggest an underlying bias or assumption that Brazil no longer needs foreign know-how, technical assistance, patents and trademarks.<sup>13</sup>

An authoritative expression of the attitude was voiced in May 1973 by Dr. Marcus Vinicius Pratini de Moraes, then Minister of Industry and Commerce and now Chairman of the Brazil Section of the new Brazil-United States Business Council. He stated the concerns about foreign technology and the contradictions which they embody in this way:<sup>14</sup>

Many countries' possibilities for growth are beginning to be limited by an insufficient capacity to produce their own technology and by the high cost of imported technology. The cost of the explicit and implicit technical content of the technology imported by Brazil last year exceeded U.S. \$800 million, or about 20% of the value of our exports. Brazil expects a greater participation on the part of foreign companies doing business here, in the area of research and the development of technology.

I believe a change is urgently required in the method of transferring technology, to eliminate restrictions on its use.

The participation of imported technology was decisive in enabling us to reach our present position, but the price was very high. Many companies have attained a level which permits them to reduce their dependence on research done abroad. We should not attempt to create technological autarchies, because we will continue to be large importers of technology; but we must reduce the present gap and utilize our capacity to generate here a segment compatible with the level which we have achieved.

Since this and similar attitudes have shaped the legislation, they also will govern the attitudes and criteria of the administrators in the INPI and elsewhere, whose duty it is to apply and carry out the laws.

## **II. Remittability of Royalties and Fees: The "Bottom Line"**

### **A. The Agreement**

Before there can be any remittance of royalties or fees, the agreement must be registered with the Central Bank,<sup>15</sup> which in turn requires that it must first be registered with (which means approved by) the INPI.<sup>16</sup>

### **GENERAL REQUIREMENTS FOR REGISTRATION BY INPI**

Normative Act No. 15 describes five kinds of agreements: Those which (1) license patents; (2) license trademarks; (3) authorize the use of proprietary industrial technology, or "know-how"; (4) provide for technical and industrial cooperation, mainly engineering; and (5) provide for technical services or

<sup>13</sup>Garland, *DOING BUSINESS IN AND WITH BRAZIL* 101 (1971).

<sup>14</sup>As reported in *Folha de Sao Paulo*, 23 May 1973.

<sup>15</sup>Profit Remittance Law, *supra* note 4, Art. 9.

<sup>16</sup>*Id.*, Art. 11.

assistance.<sup>17</sup> These are the types of technology transfer agreements most frequently encountered. Agreements which do not come within one of these classifications are to be submitted to the INPI for preliminary study and "necessary orientation."<sup>18</sup>

For each kind of agreement there are certain requirements peculiar to the nature of the transaction. The Act opens with a requirement that each kind of transfer should be contained in a separate agreement;<sup>19</sup> but later on it modifies this position by stipulating that agreements for a general type of transfer should also include provisions for more specialized kinds. For example, a patent license agreement should also include provisions for transferring unpatented industrial technology or "know-how" and furnishing technical assistance;<sup>20</sup> and an agreement authorizing use of such unpatented technical information should also contain provisions for furnishing technical assistance.<sup>21</sup>

Common to all the five kinds of agreements, or transfers, are several important requirements and prohibitions. Their purpose, according to an interview given in June 1976 by Dr. Guilherme Hatab, President of INPI, is to help achieve the national policy objective of assuring that Brazilian importers of technology will (a) guarantee their technological autonomy by generating their own technology to make them competitive; (b) equip themselves with personnel and materials, to be able to adopt and assimilate foreign technology, in order to become technologically autonomous; (c) preserve their internal decision-making powers; and (d) avoid over-burdening the balance of payments by importing those raw materials, parts and equipment which need not be imported.<sup>22</sup> Another evident purpose is to avoid paying more for the technology than they believe they have to pay.

Among the common requirements that all five types of agreements must contain are these:

(a) Provisions assuring that the licensor will supply *complete* information to enable the licensee to use and assimilate the entire technology being transferred, including all improvements made by the licensor;<sup>23</sup>

(b) A covenant by the licensee to make effective use of the technology;<sup>24</sup>

(c) A clause specifying that improvements made by the licensee shall belong to the licensee;<sup>25</sup> and

<sup>17</sup>Normative Act, *supra* note 2, at I-1.1.

<sup>18</sup>*Id.*, II.

<sup>19</sup>*Id.*, I-1.1.1.

<sup>20</sup>*Id.*, I-2.1.1.

<sup>21</sup>*Id.*, I-4.1.1(c).

<sup>22</sup>Council of the Americas, *The Investment, Technology and Economics Environment in Brazil* (June 1976).

<sup>23</sup>Normative Act, *supra* note 2, at I-2.5.1(c) and (e), 4.5.1(c) and (e) and 5.5.1(c) and (e).

<sup>24</sup>*Id.*, I-2.5.1(g), 3.5.1(e).

<sup>25</sup>*Id.*, I-2.5.1(d), 4.5.2(b), 5.5.2(b).

(d) A clause specifying which party is liable for payment of income tax on the remuneration called for by the contract.<sup>26</sup>

The Normative Act also sets out a number of general prohibitions, applicable to all the five types of agreements. These forbid, among others, clauses which:

(a) Restrict or prevent effective use of the technology, such as marketing restrictions, especially restrictions on exports;<sup>27</sup>

(b) Call for obligatory purchases of raw materials or equipment ("tying provisions") or for performance of services not related to the technology;<sup>28</sup>

(c) Restrict the licensee's right to engage in research and development;<sup>29</sup> or

(d) Exempt the licensor from liability for third-party claims arising out of defects in the technology, or make the licensee responsible for defending the industrial property rights in the technology transferred or licensed.<sup>30</sup>

### *B. Licensee Controlled by Licensor*

By now, it is well known that the Remittance Law<sup>31</sup> forbids a Brazilian licensee to pay royalties in any amount to a foreign licensor which controls the licensee directly or indirectly, for the use of patents or trademarks. Technical assistance agreements are treated somewhat differently, in that payments can be remitted to the foreign parent for five years, but cannot be deducted for income tax purposes.<sup>32</sup>

Normative Act No. 15 repeats this restriction for agreements licensing patents and trademarks.<sup>33</sup> A senior official reportedly has suggested that INPI has some doubts about its wisdom in cases involving technology which is considered especially beneficial to Brazil, and perhaps even that exceptions have been approved.

But the prohibition is still in the law; and until the law is changed any such administrative exception would constitute a kind of "sword of Damocles" over the heads of both licensee and licensor.

From the legal viewpoint, this prohibition obliges foreign owners of technology to consider two alternatives: Either license a wholly-owned subsidiary, and take payment for the technology in the form of dividends, on the one hand; or on the other, take a minority position, or none, in the licensee, in which case royalties can be remitted.

<sup>26</sup>*Id.*, 1-2.5.1(b), 3.5.1(f), 4.5.1(g), 5.5.1(d).

<sup>27</sup>*Id.*, 1-2.5.2(b), 3.5.2(c), 4.5.2(d), 5.5.2(d).

<sup>28</sup>*Id.*, 2.5.2(b)(ii), 3.5.2(c)(ii), 4.5.2(d)(ii), 5.5.2(d)(ii).

<sup>29</sup>*Id.*, 1-2.5.2(b)(iv), 3.5.2(c)(iii), 4.5.2(d)(iv), 5.5.2(d)(iv).

<sup>30</sup>*Id.*, 1-2.5.2(b)(vi) and (vii), 3.5.2(c)(v) and (vi), 4.5.2(d)(vii), 5.5.2(d)(vii).

<sup>31</sup>Profit Remittance Law, *supra* note 4, at Art. 14.

<sup>32</sup>*Supra* note 12.

<sup>33</sup>Normative Act, *supra* note 2, at 1-2.2.7(a), 3.2.4(a).

Of course, using a wholly-owned subsidiary would bring into the picture a whole series of factors which come under the category of investment, rather than transfer of technology, and hence are outside the scope of this discussion.

Even when a wholly-owned subsidiary is licensed, it is usually advisable to enter into a written license agreement, specifying that no royalties are payable, and to provide for secrecy, grant-back and perhaps other important protective features, as discussed below.

### C. What Remuneration Can Be Obtained?

Consideration of the question of obtaining adequate payment terms must deal with both the period of payment and the amount of royalties and fees which will be approved by INPI.

Initially, it must be noted that the period of payment and the term or duration of the agreement are not necessarily co-extensive. In some respects, the Normative Act seems to treat them differently. Because the obligations of the licensor or transferor tend to be governed by the term of the agreement, care is required to assure that the two periods coincide as closely as possible.

These factors will be examined separately with respect to patent licenses, transfers of industrial technology or "know-how" and trademark licenses.

## 1. PATENT LICENSES

### THE PAYMENT PERIOD

The term of most patents (i.e., patents of invention) is fifteen years. For utility models and industrial models it is ten years.<sup>34</sup> Inasmuch as numerically the latter two are not very important, this discussion will be confined to patents of invention, whose fifteen-year term runs from the date the application is filed.<sup>35</sup> The period during which payments may be remitted can be much shorter.

Although the Industrial Property Code says that a license can be granted by the owner of either a patent or an application,<sup>36</sup> the Code<sup>37</sup> and the Remittance Law require as a condition of (1) entitlement to royalties and (2) the right to remit them, that the patent be issued in Brazil.

The Remittance Law also requires proof, as a condition of remittance, that the patent has not expired in the country of origin.<sup>38</sup> In addition, Normative Act No. 15 requires in general a showing by the licensee that the patent actually is

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<sup>34</sup>Industrial Property Code, *supra* note 1, at Art. 24.

<sup>35</sup>*Id.*, Art. 24.

<sup>36</sup>*Id.*, Art. 28.

<sup>37</sup>*Id.*, Art. 30(a); Profit Remittance Law, *supra* note 4, at Art. 11.

<sup>38</sup>Profit Remittance Law, *id.*, at Art. 11.

being used; i.e., that commercial production has begun,<sup>39</sup> although in some cases an initial payment can be made for technical documents.<sup>40</sup>

Because of the time required to obtain the patent, to secure approval of the license agreement and in most cases to build the plant and bring it to commercial production, remittance of royalties and fees will be limited to a period much shorter than fifteen years.

Thus, by law, the payment period will certainly be shortened at the beginning and perhaps also at the end of the term of the patent. It is likely to be closer to ten years than to fifteen. Since this limitation is in the law, it is not open to administrative change. The main remedy is to see that the licensor's obligations conform.

#### RATE OF ROYALTY, AMOUNT OF FEES

Like the payment period, the amount of royalties and fees is also subject to limitations. We are now talking of situations in which it is possible to remit royalties and fees; i.e., when the licensee or recipient is not owned or controlled, directly or indirectly, by the owner of the technology.

The first and basic limitation has been in effect for some time, since the Income Tax Law of 1958 and its regulations,<sup>41</sup> which as has been noted, authorized the Minister of Finance to prescribe a scale of royalties, not exceeding five percent of gross sales, which licensees may deduct for income tax purposes. The Minister's scale, published in December 1958,<sup>42</sup> ranging from one percent to five percent, is still in effect, with minor amendments, reflecting the official assessment of the relative value to Brazil of various areas of technology.

The Remittance Law of 1962, as amended, has been interpreted by the Central Bank as directing that the maximum royalty for income tax purposes is also the maximum amount which can be remitted in foreign currency to the licensor. The ceiling applies to royalties and fees, not only for patents and know-how but also for trademarks and for technical, administrative and other assistance, as a package.<sup>43</sup> If only trademarks are licensed, the maximum royalty is one percent.<sup>44</sup>

The 1971 Industrial Property Code introduced no new rules regarding the amount of payment, directing only that payment provisions must comply with the legislation in force and with regulations prescribed by the monetary and exchange authorities.<sup>45</sup> Although licensors and licensees have known and lived

<sup>39</sup>Normative Act, *supra* note 2, at I-2.2, 2.2.1.

<sup>40</sup>*Id.*, I-2.2.4, 2.3.2.

<sup>41</sup>*Supra* note 3.

<sup>42</sup>*Supra* note 9.

<sup>43</sup>Profit Remittance Law, *supra* note 4, at Art. 12; Regulations, *supra* note 5, at Art. 18.

<sup>44</sup>Portaria No. 436, *supra* note 9. See Garland, *supra* note 13, at page 225.

<sup>45</sup>Industrial Property Code, *supra* note 1, at Art. 29, ¶ 1.



with these rules for some time now, Normative Act No. 15 has incorporated some changes. It requires, as we have seen, that a patent license *must* include provisions for supplying to the licensee "the package of technical information and data, formulae, specifications including those for materials, drawings and models, processes, operations and other similar elements needed for the practice of the process and/or the manufacture of the products";<sup>46</sup> that is to say, the supplementary technical and engineering information required to practice the patent. Sometimes, I suppose, this supplementary information could be protected by patent. Much more frequently, at least in this writer's experience, it is not.

Whether patented or not, it is to be included in the patent license agreement (or in a separate agreement) and treated as an integral part of the technology transfer.

Next, the Normative Act stipulates that payment for the package basically must be directly linked to sales of the product which results from using the technology;<sup>47</sup> that is, it must be in the form of running royalties.

In appropriate cases, once the Brazilian patent has issued, the agreement can provide for payment of a "reasonable" specified amount "for the technical documentation furnished initially"; *but* that payment must be treated as an advance against future royalties.<sup>48</sup>

These provisions of the Normative Act give rise to some troublesome problems.

The first problem arises out of the differentiation which many owners of technology (almost all, in my experience) make between payment for "technical documentation furnished initially" on the one hand, and payment of running royalties on the other. The former, sometimes called the "engineering package," can consist of drawings, diagrams, specifications for equipment and materials and extensive design data, often filling several volumes, much of which is prepared specifically for each licensee's circumstances and requirements, at great direct cost to the licensor. This is the engineering effort and data which, for example, an engineering firm would need to design an operating plant. Running royalties, on the other hand, represent the owner's remuneration for the use of its process, patented or not, which is the product of its heavy investment in research and development. To insist that running royalties must cover both kinds of compensation not only confuses two very different concepts; it makes the possibility of adequate remuneration very problematic.

In practically all countries, both developing and industrial, including the

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<sup>46</sup>Normative Act, *supra* note 2, at I-2.1.1(a).

<sup>47</sup>*Id.*, I-2.2.

<sup>48</sup>*Id.*, I-2.2.4.

socialist countries, licenses provide for separate payments in these circumstances. The same has been true in Brazil until this new approach was adopted.

The second difficulty is with the amount of the running royalties. A practical licensor, it could be said, wouldn't have to be bothered very much about the concepts if the total payments are adequate. But there is the rub. Not only are running royalties not adjusted upward; they are in fact squeezed downward.

The original statutory ceiling on royalties, the 1958 income tax law, put the maximum at five percent of *gross* sales.<sup>49</sup> The Minister of Finance, in Portaria 436, also applied the scale of royalties to gross sales.<sup>50</sup> The Normative Act, however, says that royalties are to be a percentage of *net* sales, which are to be computed by deducting from the invoice price (among other items) the "cost of raw materials and components imported from the licensor or from any supplier directly or indirectly connected" with the licensor.<sup>51</sup>

If the Normative Act is applied as now written, there appears to be scant possibility that the owner of patented technology which involves supplying a complex engineering package to the licensee could receive remuneration sufficient to justify licensing in Brazil.

## 2. INDUSTRIAL TECHNOLOGY OR "KNOW-HOW" AGREEMENTS

### THE PAYMENT PERIOD

By definition, industrial technology is secret, proprietary information which is not patented, including process and product engineering, drawings, formulae, operating manuals and many other kinds of information. Its use may be authorized as part of a patent license agreement or by a separate agreement.

It is not uncommon, in the present writer's experience, that important bodies of technology rest on patents only to a limited extent; rather they consist primarily of highly secret technical information of the kinds just described as the "engineering package." Even when patents are important, the supplementary technical information may be equally or even more important.

If the package includes one or more patents, the payment period for the technical information may be merged with that of the patents, although this is not entirely clear. If there is no patent, there is no statutory term to serve as a reference for the payment period which will be authorized. In this situation, more subjective factors become important.

Generally, the payment period will begin with commercial production, and

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<sup>49</sup>Income Tax Law, *supra* note 3, at Art. 74.

<sup>50</sup>Portaria No. 436, *supra* note 9, at ¶ (b).

<sup>51</sup>Normative Act, *supra* note 2, at I-2.2.1.

payment will consist of royalties on the product.<sup>52</sup> In appropriate cases, a fixed amount may be charged for the technical documentation supplied initially, but this payment must be treated as an advance against future royalties.<sup>53</sup>

Most of the criteria set out in the Normative Act will govern INPI's determination of both the period of payment and the amount. One which specifically refers to the payment period is the "period required to transfer all the content of the technology and for the full and complete assimilation thereof by the recipient."<sup>54</sup>

Industrial technology agreements, according to Normative Act No. 15, must always have a specified term or duration, linked to the time required to enable the recipient to assimilate technology through adequate use and the achievement of effective results therefrom.<sup>55</sup> To assure that result, the licensee is required to furnish detailed evidence to INPI of its technical ability to use the technology.<sup>56</sup>

Technical assistance agreements, under the Remittance Law, can provide for a payment period of up to five years, commencing with commercial production, which can be extended up to five years more, if the extension can be justified.<sup>57</sup> This usually means showing that new technology has been developed. The degree to which this provision will be taken to govern the payment period of an industrial technology agreement may depend on the relative proportions of documentary technical information and technical assistance in a specific transaction.

In agreements transferring unpatented technology it is especially important for the licensor to tie its obligations closely to the benefits to be received. One initial precaution is to include in the agreement a provision specifying that the agreement will not become effective and the licensor shall have no obligation to deliver information or other things of value until all the approvals required to enable the licensee to perform its commitments under the agreement have been obtained in writing, and in form satisfactory to the licensor and its counsel.

#### AMOUNT OF PAYMENT

Establishing the allowable amount of payment in an agreement to transfer technology which consists entirely of unpatented information faces the same difficulties described in connection with patent licenses, and some others.

The maximum royalties are set by the Income Tax Law, by Portaria 436 and

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<sup>52</sup>*Id.*, I-4.2 and 4.2.1.

<sup>53</sup>*Id.*, I-4.2.2.

<sup>54</sup>*Id.*, I-4.2(b).

<sup>55</sup>*Id.*, I-4.4.

<sup>56</sup>*Id.*, I-4.4.1.

<sup>57</sup>Profit Insurance Law, *supra* note 4, at Art. 12, ¶ 3.

by the Remittance Law, as described above.<sup>58</sup> An initial payment for the engineering package can be authorized in appropriate cases, but only as an advance against royalties.<sup>59</sup>

The total remuneration which will be approved in agreements of this type is subject to further limitation based on the application of several additional criteria set out in the Normative Act:<sup>60</sup>

a) The degree of innovation, measured primarily by the time the technology has been known and used;

b) The degree of complexity of the technology, determined whenever possible by comparison with other technology for the same purpose, belonging either to the same supplier or to others;

c) The quality of the product in terms of the market;

d) The extent to which the technology will be regularly updated, especially as regards areas in which developments and innovations are frequent, and are not eligible for patent protection;

e) The reputation and importance of the supplier in the industry;

f) When applicable, the supplier's capacity for research and development; and

g) The degree of essentiality to Brazil of the type of production or area of activity.

All this is after the parties first have demonstrated to INPI or to the Industrial Development Council ("CDI") that the product or process is important to development, under government policy; that it is not already available in Brazil; that it will make a near-term contribution to development of the sector, in line with government policy; that the product will be of exportable quality; and that it will accomplish import substitution, both of the product itself and of raw materials and components.<sup>61</sup> Finally, the Brazilian recipient must demonstrate separately to INPI's satisfaction that it is capable of using the technology effectively and submit a timetable for its assimilation and for training of technical personnel.<sup>62</sup>

If it would be difficult, under the terms of Normative Act No. 15 as now written, to obtain adequate remuneration under a patent license agreement, these additional requirements will augment that difficulty substantially with respect to unpatented technology.

Many of the problems arise out of the Normative Act, and its administrative

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<sup>58</sup>*Supra*, notes 41 through 43 and accompanying text.

<sup>59</sup>Normative Act, *supra* note 2, at I-4.2.2 and 4.3.1.

<sup>60</sup>*Id.*, I-4.2.

<sup>61</sup>*Id.*, I-4.1.2.

<sup>62</sup>*Id.*, I-4.4.1.

regulations. These can be discussed with the officials of INPI and also in some cases with the CDI. If they can be convinced that the technology is important to Brazil's development and that the other Brazilian objectives mentioned at the outset can be achieved, there may be a possibility that the administrative restrictions on payment might be eased, although recent performance is not encouraging. Needless to say, it is important to engage the assistance of able Brazilian counsel for that purpose.

### 3. TRADEMARK LICENSES

Most of what has been said above about limitations on payments under patent licenses applies equally to trademark licenses.

No royalties can be paid by a Brazilian licensee to a foreign licensor which controls the licensee, directly or indirectly,<sup>63</sup> or which has not first registered the trademark in its own country and then claimed priority in Brazil under one of the applicable international conventions.<sup>64</sup>

Royalties can be paid for use of a trademark only after registration in Brazil has been granted,<sup>65</sup> and only during the ten-year term of the registration.<sup>66</sup>

New to the 1971 Industrial Property Code is the provision that remittance of royalties will not be permitted with respect to a Brazilian trademark after it has been renewed,<sup>67</sup> which proscription is reiterated by Normative Act No. 15.<sup>68</sup>

### III. Protecting the Technology

Few will argue with the proposition that technology is valuable property. For many companies it probably is as valuable as any property they own. Less widely recognized is the fact that it is also fragile property, whose value can be lost, diluted or destroyed by seemingly innocuous events. Sometimes enthusiasm for marketing technology can cloud the dangers, especially in the case of unpatented technology.

Two aspects are especially important: grant-back and secrecy.

#### A. Grant-back

A grant-back provision says that any improvements made by the licensee or recipient in the field of technology transferred shall be available to the licensor

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<sup>63</sup>*Supra*, notes 31 and 33 and accompanying text.

<sup>64</sup>Industrial Property Code, *supra* note 1, at Arts. 68 and 90, ¶ 4(b); Normative Act, *supra* note 2, at I-3.2.4(b).

<sup>65</sup>Industrial Property Code, *id.*, Art. 90, ¶ 4(a); Normative Act, *supra* note 2, at I-3.1.1.

<sup>66</sup>Profit Remittance Law, *supra* note 4, at Art. 11; Normative Act, *supra* note 2, at I-3.1.1.

<sup>67</sup>Industrial Property Code, *supra* note 1, at Art. 90, ¶ 4(d).

<sup>68</sup>Normative Act, *supra* note 2, at I-3.2.4(c).

or transferor, usually on a non-exclusive, no-royalty basis. The developing countries have criticized this provision, apparently in the belief that it deprives licensees of some rights.

The 1971 Industrial Property Code reflects this criticism, but in rather mild form, by requiring that patent license agreements must stipulate that all rights in improvements to the product or process made by the licensee shall belong to him.<sup>69</sup> This, of course, does not forbid a grant-back clause which merely allows the licensor to use such improvements, especially if it is on a non-exclusive basis.

With regard to patent licenses, the Normative Act simply reiterates the requirement of the Code that improvements must belong to the licensee, and recognizes that information concerning them may be disclosed to the licensor.<sup>70</sup> Licensors of patents should not have much difficulty with grant-back, if no other conditions are imposed.

When the agreement transfers only unpatented technology, however, the picture changes radically. Since the Code does not deal with non-patented technology, it contains no such restriction with regard to a grant-back clause in agreements transferring that kind of technology.

The Normative Act forbids inclusion in the agreement of a provision which requires the recipient to assign (*ceder*) improvements developed by him without charge to the supplier; they may, however, be disclosed to the supplier under the same conditions which apply to the transfer of the technology.<sup>71</sup> This might seem at first reading to call for the supplier to pay the recipient the same royalty for his improvement as the recipient pays for the entire technology, a result which would seem unreasonable on its face. Since the supplier is required to make available to the recipient its own improvements during the life of the agreement,<sup>72</sup> it would appear possible that this obligation might be viewed by INPI as constituting the required mutuality.

Furthermore, licensors frequently treat their own improvements and those granted back by their several licensees as constituting a "pool," by which each licensee obtains the right to use the improvements made by all of them. This possibility would ordinarily be foreclosed to the Brazilian licensee if its improvements were to be made available to the others only against payment of royalties.

The question of grant-back, however, is one more aspect which would require careful advance consultation with INPI in the case of an agreement to transfer unpatented technology.

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<sup>69</sup>Industrial Property Code, *supra* note 1, at Art. 29, ¶ 3.

<sup>70</sup>Normative Act, *supra* note 2, at 1-2.5.1(d).

<sup>71</sup>*Id.*, 1-4.5.2(b).

<sup>72</sup>*Id.*, 1-4.5.1(c) and (d).

## B. Secrecy

Of even greater importance than grant-back to the protection of technology, especially unpatented technology, are the secrecy provisions of the agreement. As with so many other aspects of this subject, the specifics vary widely, according to the nature of the technology.

In the case of patents, of course, secrecy is of relatively small importance. The claims are public, and ownership is protected by the Industrial Property Code for the life of the patent.

Unpatented technology and know-how, however, whether supplemental to a patent or standing on their own, enjoy no such protection. This kind of information is known to the law as "trade secrets." It is protected only by the law of contract and the law of unfair competition. The law on the subject is complex, but over-simplifying; it can be said in general that once technical information comes into the public domain without a breach of contract or of a fiduciary obligation, then it is public information for all purposes, and the owner's right to exclusivity is gone.<sup>73</sup> Like an inflated balloon, no matter where on its surface it is pricked, the whole balloon is destroyed. The implications of such a disaster can be staggering. Technology representing an investment of millions can be reduced to a small fraction of its worth.

To protect against such an event, license and transfer agreements normally include a secrecy clause, by which the recipient agrees not to use the information except as authorized in the agreement, and not to disclose it to anyone except those to whom it must be disclosed for its use, and then only against similar agreements of confidentiality. This obligation usually extends for a period of years after the last disclosure of information to the recipient.

The Normative Act raises some serious questions regarding the admissibility and efficacy of the secrecy clause in agreements transferring technology to Brazil.

In the case of patent licenses, it forbids the inclusion of any provision which (a) restricts or impedes activities of the licensee which are referred to, directly or indirectly, in Brazil's antitrust law<sup>74</sup> or (b) impedes free use of the data and information transferred, after the patent expires.<sup>75</sup> In many cases the "data and information transferred" will include unpatented technical information. If these provisions are interpreted to mean that the licensee must be free to make unrestricted disclosure of that information after the patent expires, the owner's right to maintain the confidentiality of that information could be destroyed, not only in Brazil, but everywhere.

<sup>73</sup>MILGRIM, *TRADE SECRETS* (1976), §§ 2.03-2.05.

<sup>74</sup>Normative Act, *supra* note 2, at I-2.5.2(b). The antitrust law ("Law for Repression of Abuse of Economic Power") is Law No. 4,137, of 1962. See Garland, *supra* note 13, at page 179.

<sup>75</sup>Normative Act, *id.*, at I-2.5.2(b)(iii).

For agreements transferring only unpatented technology, the problem is perhaps less serious. The Normative Act contains the same prohibition as applies to patent licenses against any provision which restricts or impedes activities of the recipient which are referred to in the antitrust law.<sup>76</sup> Particularizing the prohibition, however, it forbids provisions which limit free use of the technology, "after the lapse of a period of time considered to be reasonable following delivery of each of the last items of information transferred."<sup>77</sup>

This provision suggests that INPI may be prepared to recognize the necessity of a secrecy clause for unpatented technology. The key, of course, will be the period upon which the owner of the technology, INPI and the recipient can agree as a "reasonable" period of time. In any given case, of course, what is reasonable will depend in great part upon the nature of the technology.

Summarizing, the Normative Act suggests that approval by INPI of satisfactory provisions regarding grant-back and secrecy probably can be obtained; but in view of the importance of these provisions prospective licensors and transferors should give them very close attention and be prepared to make the strongest possible case for their requirements.

#### **IV. Conclusions**

INPI is now for practical purposes a party to the negotiations for transfer of technology; in some respects a more important party than the licensee or recipient.

The Normative Act and INPI take a very restrictive posture with regard to transfers of technology, above all on the question of remuneration, despite recognition that foreign technology is needed. At present, INPI is showing a high degree of rigidity in applying the criteria of the Normative Act as they are written, doubtless under the pressure of the balance of payments problem.

To the extent that satisfactory payment and adequate protection can be negotiated, the essential elements to be emphasized are these:

- (1) the technology is of a kind which Brazil regards as important;
- (2) the proposal contains elements which will encourage and assist local research and training of personnel; and
- (3) the nature and degree of the contribution which the technology will make to exports and to import substitution.

In addition to these elements, the negotiations should be approached to the greatest extent possible with the resolve that the technology will be transferred only if adequate payment and adequate provisions covering grant-back and secrecy can be obtained and approved by INPI.

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<sup>76</sup>*Id.*, I-4.5.2(d).

<sup>77</sup>*Id.*, I-4.5.2(d)(vi).