

Depending on the sector in which the company operates and its core business, neglecting a proper examination of intellectual property assets can cause damage that is hard to rectify for the buyer. Measures such as those discussed above can determine the success or failure of a transaction and reduce the chances of future litigation.

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## The Role of the Brazilian PTO in the Recordal of Licence and Transfer of Technology Agreements

BY PEDRO FRANKOVSKY BARROSO AND JOSE CARLOS DA MATTA BERARDO | BARBOSA, MÜSSNICH & ARAGÃO

According to Article 211 of the Brazilian Industrial Property Law (Law 9279/96), all IP licensing agreements as well as those involving technology transfer must be recorded with Brazil's National Industrial Property Institute (INPI) in order to be valid against third parties and to allow royalty remittances abroad and tax deduction of these amounts.

A situation of great concern to intellectual property owners, one that has prompted great debate, is the scope of the INPI's powers: specifically, to what extent it can act as a regulatory agency by questioning contractual provisions. The INPI frequently establishes percentage limits on royalty remittances overseas, limits confidentiality clauses and prevents return of technology following contract expiration, in addition to many other constraints on the freedom to contract, under the position that it has the authority to regulate industrial property to protect the country's technological development.

This authority to interfere in the parties' will dates to 1970 and Law 5648, which established the INPI. Article 2 of this law gave the INPI power to regulate technology transfer, aiming at the country's economic development. Due to this provision, the prevailing position then was that this allowed the INPI to interfere in contractual arrangements. Indeed, a famous Brazilian Supreme Court precedent decided that the INPI has the authority to analyse the contracts submitted to it for recordation and also to set limits on the conditions in those contracts.

The debate continued following the enactment of the Industrial Property Law in 1996, which required recording IP contracts with the INPI but modified Article 2 of law 5648/70, removing from it the provision that assigned authority to the INPI to regulate technology transfer and licence agreements.

Despite the clear legislative intent to reduce the INPI's scope of action in this respect, by withdrawing its attribution to regulate technology transfer and licence agreements, the institute has continued to follow the same rules for contract recordation, thereby continuing to act as a regulatory agency.

Notwithstanding the INPI's position, which has attracted heavy criticism, until last year the Brazilian courts had not faced this issue with the depth and objectivity it deserved.

In a decision published December 2008, the Second Specialized Chamber of the Federal Court of Appeal for the Second Region, by majority, held that the INPI does have the authority to interfere in the parties' will and just to establish formal conditions for recordation.

This case involved whether the INPI could limit the amount of royalty remittance between companies that have no corporate relations. A contract between Koninklijke Philips Eletronics N. V and Novodisc Mídia Digital Ltda. (related to the technology for recording CDs and DVDs) was submitted for to the INPI for registration. The INPI objected to the stipulation of 20% royalties on net sales revenue of the products and demanded this be limited to 5%.

In her prevailing opinion, the reporting judge, Liliane Roriz, held that despite the change of Article 2 of Law 5648, the INPI still has the duty "to intervene in contractual conditions established in technology transfer agreements, since this duty is part of a broader one, to regulate intellectual property, to see that this property fulfills both its economic and social function" (Appeal of Mandamus Petition 2006.51.01.504157-8, *Koninklijke Philips Eletronics N V. vs. INPI*).

However, on May 12, 2009, a decision was published rendered by the same Second Specialized Chamber, in which the reporting judge was Messod Azulay Neto (who had dissented in the above mentioned case), which held that the INPI may not establish the conditions that it usually imposes and must be restricted to formal contractual issues. According to this decision "in view of the current legislative status, the INPI does not have authority to interfere in the merits of private transactions to impose conditions, in its sole discretion, involving the percentage established for other purposes, namely tax deductibility. In my view this is a serious error in applying the law. First, there is no legal attribution for this interference. Second, there is not rule or public policy on delimitation of prices. Third, this is an act of pure speculation, given the absolute lack of technical knowledge of the INPI regarding policies on market prices and their effects on production, and as known, there are federal entities specifically qualified for this purpose. And fourth, where the rule of law and free enterprise prevail, the state may not intervene where the parties do not feel aggrieved, under penalty of replacement of the rule of law with paternalism."

This decision, unlike the other one, strengthens the principle of freedom and independence of the parties' will. To a certain extent this can encourage intellectual property licensing and technology transfer in Brazil.

Both decisions are important precedents and are still subject to analysis by the Superior Tribunal of Justice (the highest court for non-constitutional matters). So, while the question of the INPI's power to intervene in private contractual arrangements regarding technology transfer and trademark licensing is far from resolved, at least the ball is rolling.

A related and perhaps even greater problem is the fact there are laws, decrees or regulations, even issued by the INPI itself that set parameters for contracts in the industrial property domain. This leaves the holders of rights to be licensed completely in the dark while drawing up an agreement as to whether the INPI will accept it or perhaps impose conditions incompatible with the principles that guide government action.

It is curious to compare the INPI's (we believe unjustified) position in this matter with that of other Brazilian government agencies. The Brazilian competition authorities had the opportunity to investigate Philips' licensing practices in Brazil related to CD and DVD technologies (see Preliminary Investigation no. 08012.005181/2006-37). The investigation was initiated based on a complaint that Philips was, among other conducts, charging excessive royalties from certain Brazilian producers of blank optical discs because of its dominant position in the market

for licensing the required patents. According to the complaint, these excessive royalties impaired competition between Brazilian producers and their foreign rivals.

The conclusion was that Philips was not abusing its dominant position in the technology licensing market by charging excessive royalties. In reaching this decision, the Administrative Council for Economic Defense (CADE), the main antitrust authority, considered both the fact that Philips was not a major player in the blank CD and DVD markets and evidence that Philips' licensing program was based on fixed royalties per disc sold (i.e., it did not involve payment of royalties in proportion to final prices), meaning that it could not adopt any behaviour aiming to exclude CD and DVD producers from the downstream market.

This case is exemplary because CADE openly stated that only in exceptional cases can the Brazilian Competition Law (Law no. 8,884/1994) be applied to find prices "exploitive" in an isolated instance of anticompetitive conduct. It can thus be said that CADE's current position is that "excessive" or "exploitive" prices can derive only as symptoms of other anticompetitive (exclusionary) behaviour – such as attempts at market foreclosure.

In this case, CADE reassuringly reiterated its adoption of what can be called the "conventional antitrust wisdom", as it expressly refused to act as a price regulator by trying to determine "fair" and "reasonable" prices. This less obtrusive approach to free markets is crucial for the development of the Brazilian economy: CADE – as well as practically any other regulatory agency – is obviously ill-suited to determine "fair" market prices (and royalties) and to act as a price regulator. Practice has shown that very few state-planned economies are efficient in this respect.

If only CADE's sound economic reasoning – which evidently allows for free market and free competition mechanisms to act – were taken into account by other authorities and courts in Brazil.

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## Impact of the CIS policy on Brazil's R&D Industry

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On May 12, 2008, President Lula enacted a Decree creating an Executive Group (GECIS) responsible for strengthening the Health Industrial Complex (hereinafter CIS) in Brazil through new policies.

These policies encourage CIS' development and aims at reducing Brazil's dependence on foreign health products, mainly reference drugs, therefore decreasing the trade balance's deficit and increasing the Brazilian health industry's competitiveness in both domestic and foreign markets.

The project comprises different approaches and involves the cooperation of government entities (such as the Ministries of Health, Planning and Technology, as well as the Brazilian PTO and the Brazilian FDA), to make CIS' development viable. Some of the alternatives studied are tax reduction, public funding to aid local industry, adoption of incentives for the R&D industry to bring plants and labs to Brazil, government guarantee on the