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CAVELIER, PERDOMO & CAVELIER
Bogotá, September 1975

**COMMENTS ON NORMATIVE ACT. NO. 15 ESTABLISHING
BASIC PRINCIPLES FOR REGISTRATION OF
TECHNOLOGY AND OTHER AGREEMENTS
IN BRAZIL**

1. — On September 11, 1975, an Act was signed in Brasilia giving the regulations of the National Institute of Industrial Property (INPI) for the contracting of the transfer of technology and the licensing of trademarks and patents in Brazil.

1.1. — Establishing the basic principles and the new norms for the registration of agreements for the transfer of technology, the INPI defines the five contractual categories which must now be submitted to its appreciation in order to legalize the payments, make tax deductions possible and, where applicable, prove the actual exploitation of the patent or use of the trademark in Brazil.

1.2. — Hence, the Normative Act (NA) governs the contracting of:

- (a) licences to exploit patents;
- (b) licences to use industrial technology;
- (c) the supply of industrial technology;
- (d) technical-industrial co-operation; and
- (e) specialized technical services.

1.3. — These comments are only intended to give readers an initial reaction to the Normative Act, pursuant to an examination of the same, since its very recent publication does not at this stage allow an analysis of how it will be applied in practice.

1.4. — As the act itself makes clear in Art. 1, the registration of these agreements is still tied to other legal provisions. We therefore understand that the NA should not be viewed as an isolated document, since

the matter is still governed by Ministerial *Portaria* 436/58, Law 4.131/62, the Industrial Property Code, Law 4.137/62, the Income Tax Regulations and Normative Instruction No. 5/74, the provisions of which have not been revoked by the NA. As we understand it, the NA complements these legal provisions within the sphere of competence of the INPI and the Ministry of Industry and Commerce, laying down firm rules for the forms of each type of agreement.

1.5. — The NA further determines in Art. 1 that for the purpose of the registration of the agreements, as referred to in item (a), registration is a condition for the legalization of the payments stipulated therein whether or not these are to be remitted abroad. In this instance the NA would appear to have surpassed its power since only the law is fit to legislate on legality. What will happen, however, in the case of agreements not registered by the INPI, is that it will be impossible for the paying company to remit abroad, where applicable, the sum paid in return for the transfer of technology, or to deduct such amount as an operational expense for income tax purposes, since once the agreement has been signed, it will always be valid between the parties, so that in the event of a breach, the debt may be collected through judicial proceedings.

1.6. — The question of the registration of specialized technical services agreements entered into between national companies has not been sufficiently clarified by the NA, which states that agreements for the rendering of services which are not “related to activities inherent to the production system” are not required to be registered. Even after careful scrutiny of the definition of specialized technical services agreements contained in the act, it is clear that it will be difficult to differentiate between normal service agreements and those covered by the act. Our general assumption, however, is that only those agreements where the service to be rendered is closely related to the production line of the company are subject to registration. As it stands, the field is very wide, and in this respect we foresee an alarming number of agreements presented to the INPI for its decision as to whether they comply with its norms. Needless to say, this will cause a great deal of work and give rise to a considerable amount of delay.

1.7. — Nevertheless, the question of the registration of agreements for the transfer of technology between Brazilian companies becomes even more obscure if we examine the provisions of item 1.3.1 of Art. 1 which states that “the registration of such agreements” is not “subject to the remaining provisions of the normative act.” Now, if registration is required under item 1.1.2, and item 1.3.1 states that registration is not

subject to the remaining provisions of the NA, how is one supposed to proceed? This is the question which now hangs over us and to which only the practical application of the act will give the answer.

1.8. — As regards the innovations of the NA, one of these refers to the consideration, for the purpose of the registration of the agreements with the INPI, of the link between the share composition of the licensor or supplier of the technology and that of the licensee or recipient. The act does not go into greater detail on this point but merely says that if there is a link, whether direct or indirect, in the capital participation, then for the purposes established therein, the INPI will take into account whether this participation comprises total control, majority participation, or minority participation. It seems to us that by merely inserting this provision without further comment the authorities are giving an initial warning which they hope will discourage payments for the transfer of technology between associated companies.

2. — *Licence Agreements for the Exploitation of a Patent*

Agreements drawn up for licensing the exploitation of a patent are to include the supply of information, formulae, technical data, drawings, models and processes, and whatever else may be required so that the patent may be used to achieve that for which it is intended. The NA further provides, in certain cases, for the rendering of technical assistance for the training of the licensee's personnel, a characteristic of what used to be called "technical assistance agreements."

2.1. — The NA has now formalized the licensing of filed applications for patents, but one should bear in mind that such agreements, according to the provisions of the Industrial Property Code, will only give the right to "royalties" after the patent has been granted. Similarly, the remittance abroad of such "royalties" will only be allowed in accordance with what is stipulated by Law 4.131/62, that is, after the patent has actually been registered.

2.2. — As regards remuneration for the patents, the INPI will take into account the type of production or the field of activity involved in terms of the degree of essentiality. The value of the remuneration will be decided on a percentage basis or as a fixed value per product unit and related to the net sales price, or, alternatively, where applicable, calculated in proportion to the profits earned by licensing. The latter, however, is not defined in the act, so that it is not clear what the INPI means as profit.

2.3. — In spite of the fact that the text of the Normative Act does not specifically mention the limits of the remuneration, we understand that the percentage given in Ministerial *Portaria* 436/58 will remain in force, which means the agreement must limit the percentage to between 1% and 5% according to the type of product.

2.4. — The remuneration of technicians is to be calculated on an individual basis and may include a daily rate, for which it used to be difficult to obtain approval. The maintenance expenses of the foreign technicians in the country are to be estimated and specified and will be paid in *cruzeiros*. We find it strange that the INPI does not mention in the NA any limit on such expenses, which were previously fixed at up to the *cruzeiro* equivalent of US\$200.00 per day per technician.

2.5. — As regards the term of the agreements, the rules are new. For a patent licence, the contractual bond may not exceed the validity period of the patent of invention (up to 15 years) or of the utility model or industrial design patent (up to 10 years). So the INPI has not restricted the terms of these agreements to a maximum of five years, renewable for a further five, as it previously did.

2.6. — The NA also stipulates the basic conditions of the agreement. These include a provision which allows the parties to establish which is to be responsible for the payment of income tax. This is one of the new features of the act since previously the INPI required, before it would register such agreements, that the income tax should be the responsibility of the licensor or supplier, particularly in the case of a company based abroad.

2.7. — The NA also establishes what provisions are not acceptable to the INPI for such agreements. It is worth pointing out that restrictions on the marketing of the product which is the object of the patent are still forbidden. However, the act makes an exception concerning the delimitation of the territory of such marketing, allowing marketing to be restricted to certain territories when this is authorized by industrial property legislation or specific legislation of the licensor's country, or when such restriction is the result of an international act or agreement to which Brazil is a party. This innovation, without doubt, will eliminate the serious risks which used to be run mainly by foreign licensors when licensing industrial property rights, since the INPI previously did not allow any restrictions on the licensed company's marketing even when the rights of third parties were alleged.

2.8. — Nor may the agreement contain a provision making it an obligation for the licensee to assume responsibility, including financial responsibility, for maintaining in Brazil the industrial property right granted.

3. — *Licence Agreement for the Use of a Trademark or Publicity Slogan*

License agreements for the use of a trademark or publicity slogan are to cover the actual use by the licensee of the trademark or publicity slogan regularly registered or filed in Brazil. Thus, the object of the licence must always be related to the licensor's field of activity.

3.1. — The NA establishes that if the object of the licence is a publicity slogan in figurative form, this must always be translated into Portuguese, except if there is no corresponding term in that language, only trademarks in nominative form being allowed to remain in the original language. It only remains for us to comment that such provision would not appear to have any practical effect, since the translation in the national language will not always serve the same purpose as the original words, and in the case of the export of the product, the consumer will be obliged to apply other labels or tags which better identify the product.

3.2. — The remuneration provided for by such agreements is to be established by applying the same criteria as for patent licence agreements, that is, on the basis of the net sales price or the net receipt for the service produced or, alternatively, as fixed rates on the production volume or unit produced. Also, as with patent licence agreements, the remuneration must observe the maximum percentage established in Ministerial *Portaria* 436/58 for the licensing of trademarks, the maximum being 1%. It must also be noted that in spite of the fact that said *Portaria* established maximum percentages for income tax deduction purposes, such indices have for a long time been applied by the INPI as a limit on the remuneration in various sectors, which leads us to believe that they will continue to be so used. The fact that the NA does not mention a figure for the limit leads us to believe that the INPI wishes to continue to exercise absolute power in judging the agreements, especially as regards the remuneration; if new bases were fixed at this stage, said authority, having to comply therewith, would then lose the flexibility which it has always enjoyed when registering agreements submitted to it.

3.3. — Licence agreements for the use of trademarks, in return for remuneration, will have their term limited to the first ten years of the

life of the trademark. At the end of this term, the licensor then holding the renewed trademark will be able to license it free of charge.

3.4. — The NA also describes the basic conditions of the licence. These include the obligation to state whether the licence is exclusive or non-exclusive and whether sublicensing is allowed. The last possibility was previously discouraged of by the INPI, which tried to prevent the use of an intermediary.

3.5. — Another basic condition comprises the defence of the consumer; if the specifications, nature, and quality of the product, as drawn up by the licensor, are not observed by the licensee, the effects of registration may be suspended.

3.6. — As regards responsibility for the payment of income tax, the same applies as for patent licence agreements.

3.7. — Similarly, as in the case of patent licence agreements, the trademarks may not contain any clauses which restrict or prevent the marketing of the product. Thus, provisions for the reserve of markets and those making it compulsory for the licensee to acquire raw materials, materials, or equipment from the licensor are not allowed. The exception concerning territory, referred to in item 2.7 of this Circular, also applies here, as does the provision regarding the responsibility of the licensor for the financial burden of maintaining the industrial property rights, as mentioned in item 2.8.

4. — *Agreements for the Supply of Industrial Technology*

The former technical assistance agreements have now been broken down into three other types of agreement. The first of these is the agreement for the supply of industrial technology, which, according to the NA, is to be for the specific purpose of the acquisition of information and know-how not covered by industrial property rights filed or granted in the country. It is to be used for the production of consumer goods or raw materials in general.

4.1. — The NA establishes, further, that the agreement shall include the supply of technical data, including the methodology used to obtain the process or specific product, the supply of information on improvements, and the rendering of technical assistance by the supplier's technicians, as well as the training of the recipient's technical personnel.

On this point, the NA makes a distinction between the purchase and sale of technology between national companies and that supplied by for-

foreign companies, which indicates that the INPI will have to examine the agreements submitted to it according to the criteria of the Government's policy for different sectors of industry. Thus, technology coming from abroad will be completely subject to the INPI's selection process, and if the INPI considers that the know-how is of no benefit to the development of our national industry, the recipient, even if it knows it must contract abroad in order to expand its company, will have to comply with the decision of said authority.

4.2. — We note that the criteria to be adopted for the selection of agreements signed with foreign companies are of an extremely subjective nature, so that the national contractor of foreign technology is completely at the mercy of the INPI's interpretation of the Government's policy. When the technology contracted is foreign technology, it will first have to be intended for one of the Government's priority sectors, be difficult to obtain or unavailable in the country, bring within a short term actual advantages to its market, create favorable export conditions, and allow the replacement of imports of the product itself or of raw materials and components thereof.

4.3. — As for the remuneration of agreements for the purchase of technology, this must be established on the basis of various parameters: innovation, type, complexity, reputation and importance of the supplier, sector for which it is intended, term of the transfer of the contents, and absorption. This, taken with what the NA says on the subject on the term of the agreement, means that the INPI will measure the technology. But this is relegated to second place, since the most important agreement for the INPI is that for technical-industrial co-operation, comments on which follow later.

4.4. — Just like licence agreements for trademarks and patents, agreements for the supply of industrial technology will have their remuneration calculated on a percentage basis or as a fixed value per product unit, in either case being due on the net sales price, net sales receipt and also, where applicable, being related to the profits earned on the product. However, we would call attention to the fact that the definition of the value of the remuneration, as it has been expressed, may give rise to serious confusion, since it refers to percentage payments calculated on the net sales price at the same time as it mentions fixed payments per product unit which, in the way this is written in the NA, seem also to be related to the net sales price. In view of this, the doubt remains: is it just the percentages which will be calculated on the basis of the net sales price,

receipt or profit? Or will the fixed payments also be calculated on this basis? A formal interpretation of the wording of the NA would lead us to believe that calculation of the fixed payments per product unit shall exclude taxes, freight, packaging and insurance expenses, discounts granted, raw materials, etc. . . ., that is, shall be based on the net sales price, net profit receipt. We see little logic in this provision, but this is also one of the points which the INPI will have to clarify with the actual application of the norms decreed by the recent NA.

4.5. — The NA defines net sales price but does not give a definition of net receipt or profit, which leaves anyone examining the act with yet another doubt.

4.6. — The NA provides for the possibility of making payment of fixed amounts for the technical documentation initially supplied, which will represent an integral portion of the remuneration, as well as specifying the bases of the remuneration for the sending of technical personnel, just as in the case of licence agreements for trademarks and patents.

4.7. — The NA further determines that, in certain unspecified cases, the total amount of the remuneration may be fixed in advance, taking into consideration a maximum limit to be paid during the term of the agreement, including for the subsequent supply of up-to-date know-how and the rendering of assistance in the programme for the training of specialized personnel. In this case, if the payments reach the ceilings established before the contractual term expires, only the remaining contractual provisions will still be in force. If, on the other hand, the payments have not reached the agreed limit when the agreement ends, the existing difference will not be payable. This is a viable provision, provided that it appears expressly and clearly in the agreement, since if the parties agree on a fixed remuneration, whatever form of payment is chosen, the recipient will have to comply fully therewith in order to avoid the supplier's claiming the difference at law.

4.8. — Agreements for the supply of industrial technology must establish the term necessary to enable the recipient to master the know-how through the adequate use thereof and the achievement of results. A separate document will be used by recipient to present the schedule of its technological capacity. As we understand it, this means that the maximum term of five years, established in our fiscal legislation to allow the deductibility, as an operational expense, of the remuneration paid, will still be valid. However, for each agreement the parties will have to establish the term limited to a maximum period of five years, which term

shall be measured in accordance with the factors indicated above. We can therefore deduce that the basic idea of the INPI is to reduce as much as possible the terms of payment for such agreements, which is not so noticeable in relation to agreements for technical-industrial co-operation, which, so it is said, are considered as having priority.

4.9 — Another aspect which must be noted is the fact that the INPI stipulates in the NA that said authority reserves the right to observe, whether directly or indirectly, the development of the schedule for the absorption of the technology and the program for the training of personnel at anytime during the term of the agreement.

4.10 — The agreement for the purchase of technology must, further, contain specific provisions of technical data and must not make references to industrial property rights. However, if the improvements or innovations attained during the terms of the agreement are patentable in Brazil, the NA determines that the licence for such right must be granted through a separate instrument observing the rules laid down for such agreements, except as regards the remuneration. We therefore conclude that in such case, the patent would have to be licensed free of charge.

4.11 — In this type of agreement the parties must also stipulate which is responsible for the payment of income tax.

4.12 — Among the provisions prohibited by the NA, we should make special mention of the provision which prohibits the establishment in the agreement of an obligation for the recipient to assign, free of charge, the innovations, improvements, and developments introduced or obtained by the recipient in the country. They may, however, be transferred to the supplier under the same conditions as those applicable to the technology acquired.

4.13 — As in the other forms of agreement, the NA here applies a general rule designed to prohibit clauses which restrict the reserving of markets, the compulsory purchase of raw materials, equipment, and machines from the supplier or from sources indicated by the supplier. Also prohibited is the compulsory use of a trademark or publicity slogan of the supplier, as well as clauses which place a restriction on the recipient's own research and development plans. Furthermore, the agreements shall not contain clauses preventing the free use of the technology after the lapse of a period judged to be reasonable, following the transmission of each latest set of information. The NA introduces a new regulation at this point, since previously the INPI required the free use of the technology only after the end of the contractual term.

5 — *Agreements for Technical-Industrial Co-operation*

The agreement for technical-industrial cooperation has received quite special attention from the INPI. Without any doubt, this is the agreement which is of most interest to the Brazilian economy, since its object is the acquisition of information and know-how required for the manufacture of industrial units and sub-units, machines, equipment and their corresponding components, and, further, other capital goods. We can say that this type of agreement comes closest to the directives established by the 2nd National Development Plan.

5.1 — Such agreements must include the supply of all the technical data, designs, and specifications for the product and for the materials used for its manufacture. The supplier must undertake to render technical assistance and to train specialized personnel of the recipient company.

5.2 — Just as for agreements for the supply of industrial technology, the NA here gives special emphasis to agreements signed with foreign companies and also lists the same requirements as previously mentioned.

5.3 — The remuneration of such agreements, when directly linked to the actual manufacture of the product resulting from the supply of the technology, must be estimated on a percentage basis, calculated on the net sales price, net receipt, or profit, or, alternatively, as a fixed value per product unit, less taxes, charges, components, and raw materials imported either from the supplier or from other associated sources, commissions, return credits, freight, insurance and packaging expenses, as well as other deductions agreed between the parties.

5.4 — When the agreement stipulates a fixed price, calculated on the basis of the cost plus charges ("cost plus fixed fee"), no other mode of payment, based on a percentage of the receipts or production volume, must be included. However, the NA does allow the possibility of establishing a fixed value for the technical documentation initially supplied, which will constitute an advance on the remuneration due. In some respects, this last provision is no less an innovation, since advances of any kind were disapproved of in the past by the INPI.

5.5 — The remuneration of the technicians sent by the supplier is to be estimated on a fixed basis, the daily allowances being individualized and in line with the standards normally adopted according to the specialization of the technician. The period for the rendering of the technical help must also be estimated.

5.6 — The form of payment under such agreements, if based on the net sales price, must be assessed in accordance with a duly authenticated statement from the recipient company in order to proceed to release the payment.

5.7 — In the event the payment is fixed on the basis of “cost plus fixed fee”, the release of the remuneration will take place after the agreement comes into force on presentation of a legalized invoice.

5.8 — With regard to the term, the NA stipulates, and only for this type of agreement, the possibility of fixing the term as five years, counted from the actual start of production, such term being eligible for renewal. The specific reference to a period of five years leads us to believe that agreements for technology for consumer goods shall necessarily have to fix their terms at less than the period mentioned here.

5.9 — Another innovation introduced by the NA is the express permission to renew the agreement. In this case, the criterion to be applied is that of decreasing remuneration, so as to permit the viability of greater participation of national engineering.

5.10 — The NA further determines a relative preference as to who the recipient company should be. Thus, in the case of the supply of engineering services to companies which manufacture capital goods and components, the services must actually be rendered to such companies, unless it is shown that these do not possess sufficient technical-administrative capacity, in which case the contracting will have to be made through an engineering company in view of the need for the technology to be actually absorbed.

5.11 — Also in this type of agreement, the INPI may act as a control agency for the fulfilment of the time schedules presented to it.

5.12 — The same basic conditions and prohibitions as imposed on agreements for the purchase of technology are repeated here for agreements for technical-industrial cooperation.

5.13 — In cases where the licensing of a patent is linked to the transfer of technology, the NA determines that if an integral component of the product is the object of a patent regularly filed or granted in Brazil, the license agreement will have to be signed free of remuneration. We believe that the NA surpasses its attributions here, since it will be for the supplier/licensor to decide whether or not to license the patents for the components of the product which is the object of the transfer of technolo-

gy, once the NA itself separates the licensing of patents from the transfer of technology. It is not now logical for it to impose the signing of a license agreement free of charge when it would be more appropriate to provide for the possibility of such an agreement.

6. — *Specialized Technical Services Agreement*

Finally, the INPI has decided to clarify a point which has been confusing for a long time: Are service agreements, according to Art. 126 of the Industrial Property Code, subject to registration with the INPI even if they do not provide for the transfer of technology? The answer is in the affirmative.

6.1. — In fact, the NA determines that registration with the INPI is required for agreements which are designed to cover the planning, programming, and preparation of studies and projects, the execution or rendering of services, as well as basic engineering projects, that is, industrial installations, the assembly and putting into operation of machines, equipment, and industrial units, besides technical-professional, engineering, and consulting services.

6.2. — The NA further establishes that, in cases where technical services of an urgent nature are rendered individually by foreign technicians, formalization of an agreement may be dispensed with provided that the value of the services does not exceed US \$20,000. Registration will therefore be effected directly on the basis of the invoice issued.

6.3. — When determining what such agreements must include, the NA also makes a distinction between services rendered by a national company and those rendered by a foreign company, which distinction has already been touched on in item 4.1 above, adding further that contracting abroad will have to be justified by hearing the national companies in the same field as the foreign contracting is intended for, class associations, or equivalent organizations.

6.4. — Remuneration under specialized technical services agreements shall be established as a fixed price on the basis of the proved cost, principally according to the nature of the services, the degree of importance of the undertaking, its relation to the whole sum of the investment, and the criteria and norms usually adopted in cases of that kind.

6.5. — The value relating to the remuneration of the technicians of the party rendering the services shall be estimated on the basis of the number

of personnel, an individual daily rate, and an assessment of the period required for rendering the service.

6.6. — No other forms of payment based on percentages will be permitted in this type of agreement.

6.7. — The services will be paid for either in instalments or at the end of the work or, alternatively, when the results derived therefrom are obtained, on the presentation of an invoice which shall describe the services covered by the document and the amount of the invoice.

6.8. — The term of such agreements shall take into account the time necessary to complete the work, according to its nature.

6.9. — The basic conditions and prohibitions imposed on these agreements follow the same lines as those laid down by the NA for the other agreements.

7. — To sum up, there is now a NA to regulate the different types of agreements herein described; but this does not mean we may forget the previous legislation mentioned at the start of the Circular, since it is still in force. Even so, the INPI, in view of the subjective nature and scope of the principles contained in this new regulation, will continue to impose the restrictions which it believes to be necessary and to reject agreements which it considers to be of no benefit to the national economy, with the same discretionary powers as it was exercising before the publication of Normative Act No. 15/75.

PINHEIRO NETO & CIA.

São Paulo, September 29, 1975