

## Trade Secret and Technology Transfer Regulation in Brazil

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### 1. INDICATIVE REGULATION AND MANDATORY REGULATION IN BRAZIL

1.1 The Brazilian legislation on the commercialization of technology recognizes the figure of the trade secret on know-how only under mandatory regulation, that is, directives and resolutions issued by the regulatory agency for industrial property and transfer of technology, the National Institute of Industrial Property (Brazilian Patent and Trademark Office).

1.2 The indicative legislation on the commercialization of technology is based on the following economic and juridical areas: (i) Fiscal, which has to do mainly with the income tax, including the remittances of foreign currency; (ii) Intellectual and Industrial Property; (iii) Anti-Trust and Unfair Competition; and (iv) Foreign Capital.

1.3 There is no mention of trade secret or know-how in the indicative legislation, which is focused only on the regulation and licensing of Industrial Property (trade marks and patents) and on technical assistance contracts (engineering services).

1.4 Brazil adopts a type of mixed regulation, differently from most developed countries which emphasize the indicative regulation.

1.5 Before describing that form of regulation, we will make comments about the growing importance of trade-secret agreements in world commerce of technology. We will focus on the aspects which are external to the company, or the function of technology. In other words, we are interested here in examining the use of intangible assets without the ownership 'ante-facto' by an industrial company, as a form of technological negotiation.

### 2. THE TRADE SECRET IN THE COMMERCE OF TECHNOLOGY

2.1 Trade secret, know-how, industrial secret, savoir-faire, are general terms which have acquired new significance because of the importance of the international commerce in technology. In technical areas those expressions were common, but in the context of law and economics they appear as objects in the process of internationalization of technology. There has been much debate in recent years about its meaning and different views have emerged. The globalization of the economies affects the national juridical cultures and requires changes in usually accepted concepts. The property of the trade secret or of the know-how poses new questions which can only be resolved by the abrupt transformation of long-held, traditional legal concepts.

2.2 The juridical and legal differences concerning the property are evidenced in the different "stages" of development. Even though conceptual changes will

take time, some problems have to be faced in the short and medium term. It must be understood that the importance of the trade secret as an object of technological commercialization, that is, its definition in technical, economic, and juridical aspects is crucial to foster the process of technological development. Literally, trade secret or know-how is to know "how to do". This is the meaning for those who desire the know-how for personal use or for a firm which needs it to manufacture a certain product. But its meaning is quite different in importance for those who intend to use it by negotiating it with third parties.

2.3 In Brazil, industrial property has not been the main object of the contracts for the transfer of technology. As a matter of fact, the payments for trade secret agreements far exceed those for patent licenses.

### 3. THE TRADE SECRET AND JURIDICAL PROTECTION

3.1 Common-law countries tend to consider any economic intangibles applied to industry as industrial property. In such countries property is also a "chose-in-action", so that no problems arise because all solutions are national. But whenever the so-called secret intangible assets are to be part of a process in which they will be disclosed, the situation becomes complicated.

3.2 The concepts of property in common-law countries and in continental-law countries are essentially distinct, both in their principles and in their rules and juridical practice. The law has two concepts of property: one, the Roman, is synthetic -- full power over things. The other, also of Roman roots, is analytical: the sum of four elementary rights -- to use, to enjoy, to dispose of, and to recover things from whoever unlawfully holds them. The Anglo - American concept can be understood as follows: the important element in the common law is not the "animus domini", that is, the idea of looking at things as an owner, but rather the idea of preventing others from using or enjoying things. These are in fact two distinct juridical orders of ideas. In the first case, it is difficult to insert non-corporeal things in their proper order. In the second case, one seeks a reconciliation between individual property and the "chose-in-action". But, in the end, the question is the same: the need for a time limit to the validity of property rights, as far as intangibles are concerned.

3.3 National legislations in general do not have specific definitions of a trade secret and usually treat this matter in an indirect way. In the U.S.A., apart from state laws on trade-secrets, there is a definition in the Restatement of the Law of Torts, paragraph 757: "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it".

3.4 If legal definitions are rare and when existing are extremely broad, one might seek in court decisions a jurisprudence as a guide. Most cases, however, have to do with infringements or even in cases of breaches

of contracts, that is, a breach of an obligation to secrecy, the problem remains.

3.5 In short, the jurisprudence is extensive and difficult to compare in its substantive aspects, especially between common-law countries and continental-law countries. Comparisons become possible, however, once we take the component elements of the trade secret or know-how.

#### 4. ELEMENTS OF THE TRADE SECRET

4.1 The trade secret or know-how shares similarities among various countries, although marked dissimilarities may also exist by nationalities. Its basic elements are the following:

- a) It is an information;
- b) It is a secret, not necessarily an absolute one;
- c) There is an intention to keep it secret;
- d) It has an industrial application, but in some countries also in trade, finance, among others;
- e) It carries an economic value or benefit.

4.2 In (a), the idea is that know-how is an intangible "thing". In (b), one can imagine the numerous legal difficulties to regulate any action over something unknown, that is, the secret. A solution may be found in France, through the "envelope soleau". Anyone who wishes to have the knowledge of a certain secret and protect it against unjust acts of others, or to prevent others from patenting the secret that they also may have discovered, deposits the information which will remain secret. If, however, the envelope is open at the request of the original depositor, the information ceases to be secret. This procedure was at first created to indicate the first possessor of a drawing. Subsequently it included invention, design or model, methods and know-how.

4.3 The secret should be viewed also as an absolute or relative one. Most courts of law have supported the relative concept, in the sense that more than one firm may know and use a certain secret.

4.4 In (c), the intention serves to indicate in a litigation that the holder of the secret recognized it as such and attributed a commercial value to it. There are various ways of evidencing the intention: the workers must be warned not to reveal the information, and this should be done only to those having a need to know, and in the contracts for the transfer of technology the people involved must be sworn to secrecy.

4.5 In the case of industrial application (d), the intention is to restrict the information to those involved in the production process. This requirement implies that the secret may be patentable, but it tends to be recognized even when not patentable. This applies especially to matters of property.

4.6 The secret and the possibility of its use in industry are treated by its holder as any other asset. The economic advantages over competitors, especially in

the case of patentable secrets, originate from the fact that, even though in a shorter period of time, the holder may choose to seek higher benefits than those to be gained by the exploitation of a right assured by the patent.

4.7 As we have seen, from the elements that make up the trade secret or know-how we can understand its function for a firm that holds it. Internally, it may not represent an intangible asset like a patent, for example, and may not be considered strategic information. But externally, considering the commercialization of technology, it may represent something extremely useful for those who demand it. It has, therefore, a high market value for the holder of the information.

4.8 The market value implies the disclosure of the ownership of the trade secret. The ownership defines the possible form of its realization, both for the holder and for the one that wants the information. Quite different is the conduct of someone who, desiring a certain information appropriates it unlawfully. The usurped holder does not lose the usefulness of the information, but the usurper enhances his bargaining power by increasing the market value of the goods he produces. Such unlawful action takes place without the previous need to recognize the first person to appropriate the know-how. The two ways to obtain the know-how are essentially quite distinct. The first one is an economic transaction subject to economic regulations; the second-one is a non-economic act, although for economic ends, and is regulated by penal laws.

4.9 The attempts to define an economic appropriation based on the concept of illicit acts is an incomplete way to face the question. Therefore, the concept of property derived from indirect regulation -- unfair competition, criminal, among others, does not answer the economic questions of the appropriation.

4.10 On the other hand, the know-how as a technology coexists with other technological assets that may or may not have their property clearly defined. This fact does not depend on the juridical-legal system, as is the case with patents.

4.11 In short, the undefined status of the trade secret or know-how leaves two pending questions: the property and its coexistence alongside other technological assets. Naturally, these questions emerge in the area of commercialization of technology, where the market value of know-how sometimes conflicts with its utility.

#### 5. THE TRADE SECRET AND THE REGULATION OF THE COMMERCIALIZATION OF TECHNOLOGY IN BRAZIL

5.1 The legislation on transfer of technology in Brazil includes the following objects: (i) patents; (ii) trade marks; and (iii) technical knowledge. These references, however, are not always explicit. As an example, take law 4131 which regulates foreign capital. Article 12 states:

"The total amounts due as royalties for the exploitation of patents of invention, or the use of industrial and commercial trademarks, and for technical, scientific, administrative or similar assistance, may be deducted in the income tax return."

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5.2 We should look for what the lawmakers had in mind at the time. Decree No. 53451 of Jan. 20, 1964, which regulates the original statutes on foreign capital, is enlightening in its definition of royalties and the assistances:

"Art. 10 - Royalty is the fixed or percentage remuneration periodically paid to individuals or firms domiciled, residing, or established abroad, to obtain a license for the exploitation of objects of patent or registration, patented and registered in Brazil and in the country of origin, provided that the legal protection is still in force in both countries";

and

"Art. 11 - Technical, administrative, scientific or similar assistance is the service, within each specification, which requires from its performers, individuals or firms, domiciled, residing, or established abroad, specialized technical knowledge that cannot be obtained in the country."

5.3 Concerning the percentage of royalties, the current Brazilian legislation establishes a maximum of 5% (five per cent) over the net sales price for fiscal purposes (deductibility by the Brazilian subsidiary) and exchange purposes (remittance of payments abroad). Act. No. 436/1958 issued by the Finance Ministry, still in force, established said limits and classified industries in groups. The royalty percentages vary from one to five per cent according to the category.

5.4 The national legislation of Brazil does not contain, therefore, in an explicit manner, a regulation of know-how. During the early times of regulation of transfer of technology under the Central Bank, in the mid-Sixties, the object of know-how was associated with technical knowledge, that is, negotiations were incorporated into technical assistance contracts. The Brazilian Patent Office adopted the same interpretation when it became the regulatory agency for the transfer of technology, starting in 1972.

5.5 Brazilian Patent Office's Directive No. 15 of September 11, 1975, was the first written rule which differentiated know-how from services of technical assistance. At that time know-how came to be designated as the supply of industrial technology (for goods produced in series) and technical - industrial cooperation (for capital goods made to order).

5.6 Resolution No. 22 of February 27, 1991, which was revoked by the Normative Act No. 120, of December 17, 1993 was a part of a program of deregulation by the Federal Government, aimed at expediting and improving the reviews of technological

contracts. It should be pointed out that in Brazil this matter is not treated as a private right, as the government intervenes in the process of the negotiations. These have to be approved by the BRAZILIAN PATENT OFFICE for fiscal purposes and for the remittance of payments abroad.

## 6. THE CONTRACT CATEGORIES

- a) Contracts for the exploitation of a patent
- b) Contracts for the use of a trademark
- c) Contracts for the supply of technology
- d) Contracts for services of technical and scientific assistance
- e) Contracts of Franchising

Items a and b have to do with licenses of industrial property rights - patents and trademarks. Item c refers to contracts of technology not protected by the patent system (contracts of "Know-how"); its main characteristic is the clause of secrecy of the information transferred.

Item d applies to contracts for engineering services.

## 7. NECESSARY DOCUMENTS FOR APPROVAL OF A CONTRACT FOR THE TRANSFER OF TECHNOLOGY WITH THE BRAZILIAN PTO

7.1 The following documents are required for the approval of a Contract for the Transfer of Technology with the Brazilian PTO:

1- Explanatory Letter - can be prepared by our office to furnish some information concerning the supplier of the technology and its receptor, as well as technical contractual information, general details of the technology being transferred, the particulars of the managing structure of each party, among others.

2- Contract for the Transfer of Technology - must be submitted in at least (3) three original copies, along with their translation into Portuguese. The translation work can also be performed by our office. Usually we prepare the contract in two columns (Portuguese and English) in order to facilitate the examination by the PTO.

3- Official PTO's forms for the approval of the Contract for the Transfer of Technology - specific form by the PTO which can be filled out by our office with data furnished by you.

4- Identification form - Specific form by the PTO which can be filled out by our office with identification data by the Receptor of the technology.

5- Payment of PTO's Official Fee - original copy of payment receipt in connection with the official PTO's fees for this procedure in the amount of around US\$ 330,. Such payment must be made at Banco do Brasil.

6- Articles of Incorporation or By-laws of the Receptor

7- Document attesting to the power of the Contract's signatory(ies) to sign on behalf of supplier – said document can be an Affidavit, a Power of Attorney or an Extract of the Registrar of Commerce of the head office of the supplier. Notarization from a Notary Public is necessary and the signature of the Notary Public must be legalization before the Brazilian diplomatic representation. For the affidavit and the Power of Attorney, notarization and legalization are mandatory.

8- Power of Attorney – to be granted to our office by the Brazilian subsidiary to enable us to act on behalf of said company. Please note that the presentation of the Contract and respective documentation to the Brazilian Patent Office will be made by the Brazilian subsidiary.

8. FINAL COMMENTS

8.1. These are some comments concerning the legislation of transfer of technology in Brazil.

8.2 Concerning the payment of royalties, Brazilian legislation does not accept cumulative payments. In other words, if a foreign company executes a know-how agreement with its subsidiary in Brazil, and at the same time, for example, a trademark license agreement, the payment of royalties may not be the sum of the payment via transfer of technology plus the license of the trademark (refer to item 5.3 above).