Brazil

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OVERVIEW

Restrictions

1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?

Among the principles outlined by the Brazilian Federal Constitution, companies duly organised and existing under Brazilian law may not generally be subject to any discrimination based on the nationality of its partners or shareholders. As a result, foreign companies may participate in a company incorporated in Brazil, except for certain activities where the law places specific restrictions, for instance:

- post office services;
- aviation;
- health services;
- nuclear energy;
- banking and insurance;
- broadcasting; and
- exploration of natural resources.

Such limitations do not usually affect international licensing agreements.

A foreign licensor that plans to carry out its activities in Brazil has basically two alternatives. One is to establish a Brazilian business entity in accordance with, and to be governed by, local norms and headquartered in Brazilian territory. This would include entering into joint ventures structured in the form of a Brazilian company.

The other option is to set up a direct operation in Brazil (eg, through a branch or representative office). This alternative is not generally advisable, since direct operations by foreign companies are subject to accounting and credit restrictions, as well as governmental authorisation. An official examination is usually long and discretionary, and the proper legal instrument for the granting of authorisation is a presidential decree. For this reason, the overwhelming majority of foreign companies choose to establish local subsidiaries or to acquire corporate interest in a Brazilian company, with either a majority or a minority stake.

Foreign licensors should also bear in mind that they must appoint and retain an attorney who is duly qualified and domiciled in Brazil, and with powers to represent them in administrative and judicial proceedings, including receipt of summons.

KINDS OF LICENCES

Forms of licence arrangement

2 Identify the different forms of licence arrangements that exist in your jurisdiction.

Licensing is generally understood as an agreement under which the owner of an intellectual property right (IPR) grants authorisation to its use without an effective transfer of ownership. Licences are granted for a determined period of time and within a determined territory, on a remunerated or free-of-charge basis. A licensor may grant a licence in Brazil to practically any intangible asset, including patents, industrial designs, trademarks and copyrights.

The Brazilian Industrial Property Law (Law No. 9,279 of 14 May 1996) presents the general provisions on technology transfer agreements, which are further regulated by Normative Act No. 135 of 15 April 1997 of the National Institute of Industrial Property.

Normative Act No. 135 specifies the following categories of agreements that involve the transfer of technology:

- licensing of rights (use of trademarks or exploitation of patents or industrial designs);
- the acquisition of technological knowledge (supply of technology and rendering of technical assistance services); and
- franchise agreements.

The Brazilian Copyright and Neighbouring Rights Law (Law No. 9,610 of 19 February 1998) determines that the economic rights of the author may be wholly or partly transferred by means of a licence agreement. In contrast, the moral rights of the author are inalienable and irrevocable, meaning they cannot be transferred, licensed or waived. Specifically, regarding the licensing of computer programs, provisions are found in the Brazilian Software Law (Law No. 9,609 of 19 February 1998)

In addition, it is possible to negotiate authorisations to use one's image, likeness, voice and name (commonly referred to in other jurisdictions as 'rights of publicity'). These individual assets fall under the category of personality rights, which are protected under several bodies of Brazilian law, namely the Federal Constitution and the Civil Code (Law No. 10,406 of 10 January 2002).

LAW AFFECTING INTERNATIONAL LICENSING

Creation of international licensing relationship

3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.

Licensing agreements that involve the transfer of technology, as defined by Normative Act No. 135, must be submitted for the approval of the National Institute of Industrial Property (INPI). The governmental

endorsement does not serve as a condition of validity of the agreement between the contracting parties. Nonetheless, the licence will only become binding upon third parties after the approval is published in the INPI's Official Gazette. This effect has a definite impact on the enforceability of the licensed rights and exclusivity clauses by the local licensee. The INPI's approval is also mandatory for the remittance abroad of payments and tax deduction of such payments by the licensee.

The INPI performs a discretionary examination of technology transfer agreements, often applying interpretations that are internally consolidated but not found in any established legislation. The INPI's understandings must be carefully evaluated on the negotiation of licensing agreements; in particular, those involving foreign licensors.

An example of such understandings imposes limitations on payments of fees, at least regarding agreements between local subsidiaries and a foreign company with a majority stake, based on a complex set of tax rules mainly dating from the late 1950s.

Regarding patent exploitation licence agreements and supply of technology agreements (transfer of know-how), the INPI restricts the remittance of payments to percentages that vary from 1 per cent to 5 per cent over the fixed price per unit sold or concerning net sales. These percentages were originally established for tax deduction purposes by the Brazilian Ministry of Finance's Ordinance No. 436 of 30 December 1958 and may vary according to the industry or technology area involved. Insofar as trademark licence agreements are concerned, the maximum limit allowed for the remittance of royalties is up to 1 per cent over the net sales price.

The Brazilian Industrial Property Law prescribes that both the rights holder and the applicant may enter into a licensing agreement. However, payments will only be allowed after the licensed right has been duly patented or registered before the INPI.

Moreover, although Brazil's legal system generally accepts that parties are free to determine the term of the licensing agreement, the INPI will only approve it for the period of validity of the licensed industrial property right. In the case of trademark registrations, successive recordation amendments will be necessary for each renewal. Agreements involving the transfer of know-how (non-patented technology) must have a maximum term of five years, which may be extended for another five years, provided that technical justifications are submitted and accepted by the INPI.

Pre-contractual disclosure

4 | What pre-contractual disclosure must a licensor make to prospective licensees?

International agreements that involve the transfer of technology must be examined by and registered with the INPI for the purposes of enforcing third parties; remittance abroad of payments; and deduction of such payments for local income tax purposes. The INPI may suspend or cancel an approval if it later finds that it is not in compliance with the applicable norms.

In addition, if one of the parties to the licensing agreement is a non-resident, the signature will have to be confirmed by a notary public in accordance with the norms of that jurisdiction. The notarisation will then have to be further legalised by the local Brazilian consular representation. Legalisation may be dismissed in agreements with parties resident in countries with which Brazil has signed cooperation treaties in judiciary matters.

Registration

5 | Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

The Brazilian Civil Code provides for two major principles in relation to contractual relationships:

- the freedom to negotiate shall be based upon and limited by the social purposes of the agreement; and
- during the conclusion and performance of the contract, the parties must observe the principles of honesty and good faith.

These general rules may serve as a basis to redress perceived inequalities or rewrite provisions viewed as being abusive. This means that when Brazilian law is applicable, a local court may analyse the purposes and conditions of the agreement based on circumstances other than the written provisions.

Additionally, the Brazilian Civil Code provides that, where the law expressly or implicitly allows, a party may unilaterally terminate an agreement upon notification to the other party without good cause. Nonetheless, in agreements where good cause is required, its absence does not preclude termination, but the party that unjustifiably terminated the agreement shall be obliged to pay damages to its counterpart.

INTELLECTUAL PROPERTY ISSUES

Paris Convention

6 | Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Brazil is a party to all three of the aforementioned treaties.

Contesting validity

7 | Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

A contractual disposition that limits the free and ample exercise of a given right may be considered abusive by a Brazilian court. This includes conditions preventing challenges to the validity of a foreign licensor's intellectual property rights (IPRs) or registrations.

However, it is generally accepted that a licensee may not impose undue obstacles on a foreign licensor's IPRs or registrations. Also, it is advisable to contractually prohibit the licensee from applying for registrations of the licensed rights.

Invalidity or expiry

8 | What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The invalidity or expiry of registration of an IPR will usually be deemed cause for the termination of the licence. Accordingly, given that the right of the licensee to freely compete is not expressly regulated by Brazilian law, it will be bound to the terms and provisions of the licence agreement.

Requirements specific to foreigners

9 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

No such registration or evidence of use is necessary. As a rule, Brazilian law does not make any distinction based on the nationality of the applicant for registration. The only requirement unique to foreign nationals is to appoint and retain an attorney who is duly qualified and domiciled in Brazil.

Registration and use in the country of origin becomes relevant when the priority right of the Paris Convention for the Protection of Industrial Property 1883 (Paris Convention) is applicable. Regarding trademarks, depending on the type of evidence that is provided, such factors could also support the application of article 6 *bis* and *quinquies* of the Paris Convention.

Unregistered rights

10 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Unregistered trademarks may be licensed in Brazil. However, in order to license its use, the licensor must have at least filed an application for registration in Brazil. It is important to highlight that the remittance of payments from trademark licences will only be accepted after grant of a respective trademark registration by the National Institute of Industrial Property (INPI). Retroactive payments before the grant of the trademark registration are not allowed.

Likewise, a patent application may be subject to a licence agreement.

Insofar as copyrights are concerned, the economic rights of the author may be wholly or partly transferred by means of a licence agreement.

Security interests

11 Are there particular requirements in your jurisdiction to take a security interest in intellectual property?

In accordance with the Brazilian Industrial Property Law (BIPL), the INPI shall register any limitation or onus that applies to applications, registrations or patents. The recordal of such limitations becomes effective regarding third parties on the date of publication in the Official Gazette. It must be highlighted that the recordal by the INPI is not a condition for the licence agreement to be valid between the contracting parties.

Proceedings against third parties

12 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

A foreign owner or licensor may institute such proceedings without joining the local licensee. However, the licensee may be contractually invested with powers to enforce the licensed right. Regarding patent, trademark and other technology transfer licences, the agreement will have to be registered by the INPI to legitimise a licensee's standing to bring suit.

Without the express consent of the owner or licensor, the licensee will not be able to institute proceedings against an infringer. The licensee can also be contractually prohibited from doing so. It is advisable, however, that the licence agreement determines an obligation for the licensee to cooperate with the licensor to cease third-party infringements. Even when the licensee lacks standing, it would be possible to intervene in the form of assistant (*amicus curiae*) to the foreign owner or licensor.

Sub-licensing

13 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

Sub-licensing would only be acceptable if provided for in the original licence agreement. As a rule, the right to sub-license does not exist statutorily and must be granted contractually.

Jointly owned intellectual property

14 If intellectual property in your jurisdiction is jointly owned, is each co-owner free to deal with that intellectual property as it wishes without the consent of the other co-owners? Are co-owners of intellectual property rights able to change this position in a contract?

In regard to the patents, the BIPL only indicates, in paragraph 3 of article 6, that the patent created jointly by two or more inventors may be applied for by all or one of them, by means of naming and identifying the others, to safeguard the respective rights. Since the BIPL does not provide further rules regarding co-ownership, provisions of the Brazilian Civil Code for condominium ownership are usually applied. In this sense, although there are some discussions on the application of such prescriptions to patents, the majority understands that the object of the patent cannot be freely licensed by one of the co-owners without the consent of the other co-owners, nor be partially sold to third parties when the other co-owners are interested in acquiring it. However, the majority also understands that each one of the co-owners of the patent can exploit the object without the consent of the other co-owners. A private contract among the co-owners may alter these rules.

For trademarks, the Brazilian Patent and Trademark Office prohibits co-ownership. However, the simultaneous use of a trademark through licence agreements is allowed, and the terms of such agreement can be freely stipulated among the parties.

Regarding copyright, the Brazilian Copyright and Neighbouring Rights Law (Law No. 9,610 of 19 February 1998) (BCL) prescribes in paragraph 2 of article 15 that any joint author whose contribution can be used separately shall enjoy all the faculties inherent in its creation as an individual work, provided that any use liable to prejudice the exploitation of the whole work is prohibited. Moreover, article 32 of the BCL prescribes that, when a work of joint authorship is not divisible, co-authors cannot publish nor authorise publication of the work without the consent of the other co-authors, under the penalty of having to pay damages. In this specific case, the BCL prescribes particular rules (ie, if the co-authors are in disagreement, they shall decide by majority vote; any dissenting co-author shall retain the right not to contribute to the cost of publication) on the understanding that he or she then renounces his or her share in eventual profits, and also the right to refuse to be named on the work; and each co-author may, independently and without the consent of the others, have the work registered and assert his or her own rights against third parties. The co-authors of a copyrightable work can, according to the provision of article 23 of the BCL, exercise their rights over the work by common consent (ie, as established in a contract).

First to file

15 | Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Brazil follows a 'first to file' system regarding both patents and trademarks. Some specific exceptions are prescribed by the BIPL. For instance, a person who, in good faith, prior to the filing or priority date of a patent application, was exploiting the object thereof in Brazil may assert the right to continue the exploitation in the same manner and under the same conditions as before.

Another exception is found in relation to trademarks. Under the BIPL, a person who, in good faith, had been using an identical or similar mark in Brazil for at least six months before the filing of the application may claim the right of preference for the registration.

A foreign licensor may license the use of an invention subject to a pending patent application. The licensor will not be able to receive royalties until the patent is granted.

Scope of patent protection

16 | Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

The BIPL expressly forbids patents over commercial, accounting, financial, educational, advertising, lottery and inspection schemes, plans, principles or methods. It also excludes from protection living organisms, in whole or in part, as well as biological materials found in nature, even if isolated therefrom. In contrast, the BIPL allows patents over transgenic microorganisms, which are defined as organisms that express, by means of direct human intervention in their genetic composition, a characteristic normally not attainable under natural conditions.

Software per se is protected under copyright, not patent. However, the INPI has admitted patents that include software for processes or that integrate diverse equipment, provided that the patentability requirements of novelty, inventive step and industrial application are met.

Trade secrets and know-how

17 | Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Trade secrets are protected under unfair competition provisions in the BIPL. Among other conduct, a crime of unfair competition is committed by any person who discloses, exploits or uses, without authorisation, confidential knowledge, information or data that could be used in industry, commerce or service rendering, unless such knowledge, information or data is public knowledge or obvious to an expert in the relevant subject. The violator must have gained access to the trade secret through fraud or by means of a contractual or employment relationship, even after its termination. Therefore, if the object of the trade secret is discovered or developed by permissable independent means, no infringement will generally be found.

Know-how is not clearly defined by specific legislation. It is generally understood by local administrative and judicial authorities as knowledge or techniques not covered or registered as industrial property rights, which are used in the manufacture of goods or in the rendering of services.

18 | Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

Foreign licensors should be aware that the INPI does not admit temporary licensing of know-how. Rather, the predominant understanding is that non-patented technology is only subject to disclosure or permanent acquisition. Therefore, the INPI will not approve contractual dispositions prohibiting the local licensee to continue exploring the transferred know-how.

Non-disclosure clauses are generally admitted during the term of the licence agreement and for a reasonable period after termination. In many cases, the INPI has considered five years after termination as a reasonable confidentiality period.

Copyright

19 | What constitutes copyright in your jurisdiction and how can it be protected?

Copyright constitutes an arrangement of economic and moral prerogatives that the law recognises to creators of original works of authorship. The Brazilian Constitution determines that authors shall have the exclusive rights of use, publication and reproduction over their works. These exclusive economic rights may be transferred to the author's successors, for a time fixed by law.

Traditionally, the author's rights in Brazil were conceived as a part of the general legal branch of civil law, regulated in the former Civil Code of 1916. The protection was later regulated in specific norms. The most recent and in force are the BCL and the Brazilian Software Law (BSL).

Under the BCL, intellectual works subject to protection are original creations of the mind, whatever their mode of expression or the medium in which they are fixed, tangible or intangible, known or capable of invention in the future. Such protectable creations include literary works, musical compositions, films, photographs, drawings, paintings, sculptures, illustrations, animations, adaptations, translations, collections, compilations and computer software.

As a general rule, the BCL sets the duration of economic rights for a period of 70 years counted from 1 January of the year following the author's death. The BSL sets the duration of the rights associated with computer software for a period of 50 years counted from 1 January of the year following publication or creation.

Protection of copyright in Brazil is not subject to registration, notice or any other formalities. The granting of copyright is automatic upon the creation of an original work of authorship, even if the work is not fixed in a tangible medium. Nonetheless, optional registration is recommended to evidence authorship and the date of creation of the work. Registration is performed by different official organisations, depending on the nature of the work. For instance, the registration of literary works may be filed at the Copyright Office of the Brazilian National Library, and the registration of computer software is requested at the INPI.

SOFTWARE LICENSING

Perpetual software licences

20 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

The Brazilian Software Law (BSL) does not provide specific restrictions on perpetual software licences.

Legal requirements

21 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There is no general requirement to be complied with for one to be able to register or license software in Brazil, nor is there any import or export restriction. However, the BSL determines that all acts and agreements for the licensing of commercialisation rights relating to software programs of foreign origin must establish, as regards the payable taxes and charges, the liability for the respective payments. The validity of common software licences does not depend on prior official registration. In the cases of transfer of technology of a software program, the National Institute of Industrial Property must approve and register the respective agreements.

Restrictions on users

22 Are there legal restrictions in your jurisdiction with respect to the restrictions a licensor can put on users of its software in a licence agreement?

Yes. The BSL brings, in its article 6, the limitations imposed on the owner of a software (licensor) in Brazil, indicating that they do not constitute an offence to its rights:

- the reproduction, in one single copy, of a legitimately purchased copy, provided the copy is intended as a backup copy or electronic storage, in which case the copy shall be used as a backup copy;
- partial quotes of the software, for teaching purposes, provided the software and the owner of the respective rights are duly identified;
- the similarity of the software with another, pre-existing, software, when this occurs by virtues of the functional characteristics of its application, compliance with normative and technical precepts, or alternative limitation on its expressions; and
- the integration of software, maintaining its essential characteristics, with an application or operational system, technically indispensable for user needs, provided it be for the exclusive use of the person who effected it.

ROYALTIES AND OTHER PAYMENTS, CURRENCY CONVERSION AND TAXES

Relevant legislation

23 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

The National Institute of Industrial Property (INPI) sets various restrictions regarding payments resulting from an international licensing relationship. Brazilian law distinguishes the compensation of know-how agreements (commonly referred to as 'technical assistance' or 'non-patented technology'). According to the tax norms in force, payments resulting from know-how agreements are technically designated as 'remuneration'. The expression 'royalties' is more commonly applied to the licensing of trademarks, patents or copyrights and franchise agreements.

Restrictions

24 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

Pursuant to the Brazilian Foreign Capital Law (Law No. 4,131 of 3 September 1962) and other applicable provisions (Ordinance No. 436 of the Ministry of Finance, Law No. 4,506 of 1964, Law No. 8,383 of 1991, Decree No. 55,762 of 1965 and Decree No. 3,000 of 1999), foreign investments must be registered with the Central Bank of Brazil to allow the remittance abroad of dividends, interest on equity and funds related to repatriations of capital. Foreign capital receives the same legal treatment given to national capital, in identical conditions. Any distinction not provided by law is prohibited.

Remittances related to foreign capital duly registered with the Central Bank may be effected at any time without preliminary approval of that official institution, provided that other corporate and tax requirements are met. Regarding the remittance of royalties or other fees or costs resulting from technology transfers, the relevant agreement must be approved by the INPI prior to registration with the Central Bank.

Taxation of foreign licensor

25 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

A foreign licensor that has not established a local operation in Brazil would only be taxed on the income generated in our jurisdiction. As a general rule, payments from sources located in Brazil to companies abroad are subject to withholding income tax. Payments resulting from technology transfer agreements and other intellectual property licences are subject to a withholding income tax currently levied at a general rate of 15 per cent, unless a lower rate is provided for in an international treaty. Brazil has signed treaties to avoid double taxation with many countries, including Argentina, Austria, Canada, Chile, China, France, Israel, Italy, Japan, Mexico, Portugal, South Africa, South Korea, Spain and Sweden. Licensing agreements are subject to other taxes, such as the contribution for intervention in the economic domain, service tax and the contribution to the social integration programme and contribution for social security financing on importation. However, only the responsibility for payments of the withholding income tax may be subject to negotiations of the contracting parties.

COMPETITION LAW ISSUES

Restrictions on trade

26 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

The Brazilian Antitrust Law (Law No. 12,529 of 30 November 2011) expressly prohibits business practices that potentially restrict trade. The Brazilian Administrative Council for Economic Defence is the authority legally responsible for examining the impact of suspicious behaviour, including contracts for the use or exploitation of intellectual property rights.

The competition authorities are able to restrain certain types of behaviour if they produce or are capable of producing the following effects:

- limiting, restraining or in any way harming competition or free enterprise;
- controlling the relevant market of certain products or services;
- increasing profits arbitrarily; and
- abuse of a dominant position.

These are essential requisites for the classification of business behaviour as anticompetitive, as well as it being necessary to analyse its objective, marketing structure and peculiarities, and its consequences.

Legal restrictions

27 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

There is no provision in Brazilian law relating to specific conditions that must be taken into account when analysing licence agreements in respect of competition issues. Following the rule of reason, there is no contractual clause deemed anticompetitive per se. The principle of effective competition, foreseen in the Brazilian Constitution, shall guide the analysis of licence agreements.

To be considered illegal, practices must result in the anticompetitive effects, namely, limiting, restraining or in way harming competition or free enterprise; controlling the relevant market of certain products or services; increasing profits arbitrarily; and abuse of a dominant position.

To ascertain the existence of these effects, licence agreements shall be analysed on a case-by-case basis within the economic context of the contracting parties and their relevant market.

IP-related court rulings

28 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Yes. Brazilian judicial courts have issued decisions condemning corporations, for example, for bad faith and sham litigation for filing lawsuits to extend the term of protection of their patents. Some of these cases have been reverted in second instance. Also, there was a recent case in Brazil in which the Brazilian Anti-Trust Agency (CADE) considered that a pharmaceutical company had an anticompetitive posture in performing several actions called 'contradictory and misleading' by CADE to maintain its exclusive rights over the production and commercialisation of a pharmaceutical product, imposing some restrictive measures and fining the company.

INDEMNIFICATION, DISCLAIMERS OF LIABILITY, DAMAGES AND LIMITATION OF DAMAGES

Indemnification provisions

29 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Such provisions are enforceable. Insurance cover to protect a foreign licensor is available in support of an indemnification provision regarding acts and omissions of the licensee.

Waivers and limitations

30 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Limitation of liability is generally enforceable, provided that principles of good faith and of the social function of the contract are respected. As a result, limited liability may not be accepted in cases of proven wilful misconduct, gross negligence or another wrongful act. One of the main exceptions that may affect international licensing is found in the Brazilian Consumer Protection Code (BCPC) (Law No. 8,078 of 11 September 1990). The BCPC declares provisions abusive that prevent, exempt or otherwise reduce the liability of a supplier of goods or services for defects or damages of any nature. The inclusion of such provisions on consumer agreement is therefore prohibited, except when the consumer is a legal entity and in justifiable situations.

TERMINATION

Right to terminate

31 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

It is generally understood that agreements with indefinite terms may be terminated by any party, on condition that reasonable prior notice is given. According to the Brazilian Civil Code, if, given the nature of the agreement, one party has made significant investments for its execution, unilateral termination will only take effect after a period that is reasonable for the nature and amount of the investments.

The Civil Code also determines that the debtor may request the termination of the agreement when the contractual obligations become excessively onerous, with great advantage to the other party, owing to exceptional and unforeseeable events. If the contractual obligations fall upon only one party, he or she may plead the obligation to be reduced or changed to avoid excessive financial burden.

Impact of termination

32 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

In principle, termination or expiration of a licence agreement would cause the cessation of any legal effect regarding sub-licences granted by the licensee. Should a contractual provision authorise the sub-licensing after the termination or expiration of the licence agreement, it would be enforceable if it is clear in addressing this issue (ie, if the clause contains specific authorisation for the continuation of the sub-licensing and also contains a term of validity for such sub-licensing).

BANKRUPTCY

Impact of licensee bankruptcy

33 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that the licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

According to the Brazilian Bankruptcy Law (Law No. 11,101 of 9 November 2005) (BBL), contracts are not automatically terminated by bankruptcy. In fact, the trustee may continue the performance of the agreement when necessary to maintain and preserve the assets of the bankrupt estate. If there is no contractual provision for termination in the event of bankruptcy, the agreement remains in force. As a result, it is very common and highly advisable to include such provision in an international licensing agreement. The contract would terminate not as a result of the bankruptcy itself, but by the will of the contracting parties.

Impact of licensor bankruptcy

34 What is the impact of the bankruptcy of the licensor on the legal relationship with its licensee; and any sub-licence the licensee has granted? Are there any steps a licensee can take to protect its interest if the licensor becomes bankrupt?

According to the BBL, contracts are not automatically terminated by bankruptcy. Rather, it is up to the person designed as judicial administrator to decide whether to fulfil, or not, these contracts. To make such a decision, the judicial administrator will consider if this either reduces or avoids an increase in the bankruptcy estate's liabilities, or if it is necessary to maintain and safeguard the bankruptcy estate's assets. As a result, sub-licences will be affected by the judicial administrator's decision regarding the termination of the contract between the licensor and the licensee.

If the judicial administrator chooses to terminate the contract between the licensor and the licensee, the licensee will be able to claim damages through ordinary judicial proceedings. Once the licensee is granted a positive judicial award, he or she will be able to apply for the payment of the award in the course of the bankruptcy proceedings.

Regarding the steps that can be taken to protect the interests of the licensee, a few points have to be considered. Notably, the BBL is considered public policy. Therefore, any contractual dispositions that go against this law are deemed to be void. Hence, a contractual provision stating that the licence agreement cannot be terminated, under any circumstances, upon the declaration of bankruptcy of the licensor is of no legal value. Taking this into account, some scholars advocate that a prudent (and valid) measure is to set a penalty for premature termination in the licence agreement.

GOVERNING LAW AND DISPUTE RESOLUTION

Restrictions on governing law

35 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

Following provisions set by the Introductory Law to the Brazilian Civil Code (Decree-Law No. 4,657 of 4 September 1942) to qualify and govern agreements and other kinds of obligations, the law of the country where they are constituted will apply. It further stipulates that the obligation resulting from an agreement is presumed to be constituted in the place of residence of the party that makes the proposal. In view of these provisions, it is generally understood by legal commentators that the parties are not free to choose the law that will govern the licensing arrangement.

Contractual agreement to arbitration

36 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another?

Yes. According to the Brazilian Arbitration Law (Law No. 9,307 of 23 September 1996), the parties may freely choose the rules of law to be applied in arbitration, as long as there is no violation of good morals and public policy. Arbitration proceedings may be conducted in any jurisdiction. If, however, the arbitration clause in a given agreement refers to the rules of a particular arbitral institution or specialised entity, the arbitration shall be instituted and conducted under such rules, unless otherwise agreed by the parties. Moreover, to be enforced in Brazil, the decision issued by a foreign arbitral body must be homologated (recognised) by the Brazilian Superior Court of Justice, which is limited to the verification of the compliance with the formal requirements and does not analyse the merits.

Many factors come into play when choosing the 'most favoured' arbitration body for a case. Therefore, a case-by-case analysis should occur in determining which court is appropriate. The most popular choices are the following, each one with its particularities:

- the International Chamber of Commerce;
- the London Court of International Arbitration;
- the World Intellectual Property Organization; and
- the American Arbitration Association.

Enforceability

37 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

Court judgments or arbitral awards from other jurisdictions are enforceable in accordance with local norms and international treaties. Brazil is party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (New York Convention).

To be recognised and enforceable in Brazil, foreign judgments or arbitral awards must be submitted to the approval (homologation) of the Superior Court of Justice (STJ), the highest Brazilian appellate court for non-constitutional matters. The STJ will not examine the merits of the foreign decision, but will check if it complies with the following formalities:

- the foreign decision must have been rendered by a competent judge;
- the parties must have been served proper notice of process or arbitration;
- the judgment or award must be final and in proper form for its enforcement in accordance with the laws of the jurisdiction where it was rendered;
- the foreign decision must be legalised by the competent Brazilian consulate and must be submitted to the STJ with a sworn translation; and
- the judgment or award must not be contrary to Brazilian national sovereignty, public policy or good morals.

Injunctive relief

38 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in Brazil. It requires demonstration of sufficient legal basis together with probable success on the merits, as well as of risks that the delay would deprive the legitimate exercise of the violated right and cause irreparable harm. The new Brazilian Code of Civil Procedure allows the parties to change the procedure to adapt it to the specificities of the case, which could be interpreted as an allowance to renounce the right to injunction relief. Nevertheless, the Brazilian Federal Constitution establishes the right to bring suit within the category of fundamental rights and guarantees. A contractual waiver of injunctive relief would be considered null and void. According to the Federal Constitution, the law shall not exclude from judicial examination any violation of or threat to a right. This legal principle poses a significant obstacle to the enforceability of contractual waivers of injunctive or other equitable relief on judicial proceedings, particularly when related to matters of public policy. The right to seek relief would be within the discretion of the court. Alternatively, if the parties contractually agree to arbitration instead of resorting to the courts they may, in principle, freely choose the rules of law to be applied in arbitration proceedings.

UPDATES & TRENDS

Key developments of the past year

39 Please identify any recent developments in laws or regulations, or any landmark cases, that have (or are expected to have) a notable impact on licensing agreements in your jurisdiction (including any significant proposals for new legislation or regulations, even if not yet adopted). Explain briefly how licensing agreements might be affected.

According to the Brazilian Patent and Trademark Office (BPTO), the number of requests for the registration of licensing contracts between January and October 2020 has fallen by 14.4 per cent in comparison to the same period of the previous year. During this period, 823 requests for registration of licensing contracts were filed with the BPTO, by applicants from 24 different countries.

Coronavirus

40 What emergency legislation, relief programmes and other initiatives specific to your practice area has your state implemented to address the pandemic? Have any existing government programmes, laws or regulations been amended to address these concerns? What best practices are advisable for clients?

The BPTO, with the objective of preventing the spread of the coronavirus, established, through Ordinance No. 120/2020, remote working for its employees starting 17 March 2020, and suspended all deadlines from 16 March until 14 April 2020. The suspension of the deadlines was extended until 30 April 2020 through Ordinance No. 161/2020 of 13 April 2020, and extended one more time, until 31 May 2020, through Ordinance No. 179/2020 of 11 May 2020. In sum, all deadlines for procedures before the BPTO were suspended from 16 March until 31 May 2020.

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On 7 April 2020, the BPTO published Ordinance No. 149/2020 aiming to expedite examination of patent applications with technologies related to the covid-19 pandemic. This Ordinance modifies the BPTO's Resolution No. 239/2019, which already provides fast-track examination for applications related to rare diseases, AIDS, cancer and others, and will be in force until 30 June 2021. Therefore, all applications that comply with the requirements established by Resolution No. 239/2019 and that are related to pharmaceutical products and processes and equipment or materials for use in the diagnosis, prophylaxis, as well as treatment of coronavirus, are eligible to file the request for fast-track examination until 30 June 2021.