

## Intellectual Property and Standards in Brazil

A study prepared on support of the “American Academy of Sciences” study on IP Management and Standard-Setting Processes

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## An introduction

At the moment we write this paper, there is no Federal public policy <sup>2</sup> in Brazil dealing with the relations of the Intellectual Property system and Standard-Setting Processes<sup>3</sup>. This fact will condition our analytical perspective: it is not possible to describe the strategies and methods utilized by the Brazilian Government to care for such relevant theme, but just to sketch the extent and character of the problem that would be the target of such policies, if they were to be created and applied.

Why Brazilian Government is so careless of this relevant problem, whereas other emerging economies have dedicated significant domestic and International efforts to conduct their own policies the same issue?

Simple disregard as to the importance of IP and standard-setting procedures is certainly *not* the cause. Although lacking as yet a uniform Intellectual Property Policy<sup>4</sup>, the Brazilian Federal Government has been striving to create and enforce a coherent Innovation and Development strategy<sup>5</sup> and standard setting is a relevant portion of this drive <sup>6</sup>.

Lack of institutional opportunity for enforcing any integrated policies is also not the cause. The Brazilian Standard-Setting authority (Inmetro) and the Patent and Trademark Office (INPI) are sister agencies belonging to the same

2 We take as an example of such policy the ANSI. Procedures for the Development and Coordination of American National Standards. New York: ANSI, 1987.

3 There were no published policies or regulations on this matter. To confirm the inexistence of such policies, even on an elaborative stage, the author consulted personally with the Deputy-Minister of Science and Technology, the Secretary of the Interdepartmental Steering Group on Intellectual Property (GIPI) and the Head of the Intellectual Property Section of the Ministry of Foreign Affairs.

4 On the Brazilian interdepartmental rivalry and conflicting policies in some areas of Intellectual Property and Innovation, as biotechnology, agrochemicals and health. See BARBOSA, D. B. Patents and the Emerging Markets of Latin America – Brazil, in ABBOTT, F., CORREA, C., DRAHOS, P. Emerging Markets and the World Patent Order: Rules for an Altered Landscape, ANU e Press, 2012. A preliminary version of this paper may be found at <http://www.denisbarbosa.addr.com/arquivos/novidades/tallahassee3.pdf>.

5 See OECD (2006b), OECD Economic Surveys – Brazil, 2006/08, OECD, Paris; and Shaver, Lea Bishop, Access to Knowledge in Brazil: New Research on Intellectual Property, Innovation and Development. ACCESS TO KNOWLEDGE IN BRAZIL: NEW RESEARCH ON INTELLECTUAL PROPERTY, INNOVATION AND DEVELOPMENT, Lea Shaver, ed., Bloomsbury Academic, Bloomsbury Publishing, UK, USA, 2010; Hofstra Univ. Legal Studies Research Paper no. 10-49. Available at SSRN: <http://ssrn.com/abstract=1729837>.

6 MONTEIRO, C. D. M.; TORRES, A. A. Brazil, OECD Standard Setting 2010, found at <http://www.oecd.org/regreform/liberalisationandcompetitioninterventioninregulatedsectors/47381304.pdf>. Visited May 15, 2012.

Ministry, and for most of their history sharing the same premises in Rio de Janeiro. This institutional and even physical proximity did not result in any common set of policies on the subject of this study.

Nor can be this lack of policy explained by the irrelevance of the matter in the Brazilian environment. The Interdepartmental Steering Group<sup>7</sup> has discussed the issue more than once. The Brazilian Foreign Office has furthermore followed closely China's claims within the WTO system related to standard-setting issues<sup>8</sup>, but without direct interference in the pertinent procedures<sup>9</sup>.

On the other hand, only very recently the interface between Intellectual Property and competition policies has captured the attention of the Brazilian antitrust authorities<sup>10</sup>. Prior to this change of perspective, the IP aspects of the rare standard-setting cases were conspicuously sidestepped<sup>11</sup>. On a study dealing on the standard-setting side of the issue<sup>12</sup> the authors indicate that the Brazilian antitrust authorities have only tackled the connection between standards and competition interests in three cases<sup>13</sup>, and with quite limited results<sup>14</sup>.

Whatever the reason, no set of policies exist<sup>15</sup>.

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7 GIPI is a steering, standing group by representatives of all Federal department-level entities related to IP, and also by INPI and Brazilian FDA (ANVISA), both on an advisory-only capacity. Proposals of Federal IP policies, legislative bills and vetoes of Congress-initiated bills are sent to GIPI.

8 For instance, Hong Kong, China and China's claims regarding an EU regulation on polyamide and melamine plastic kitchenware (STC# 322); China's claim regarding EU limits of aluminum in flour products (STC# 331).

9 Whenever pertinent, such information has been circulated through GIPI. However, to the date no publicized actions were taken by GIPI members concerning the resulting data flow.

10 See, SALGADO, L.H.; ZUCOLOTTI, G.; and BARBOSA, D.B. Study on The Anti-Competitive Enforcement of Intellectual Property (Ip) Rights: Sham Litigation, Doc. WIPO CDIP/9/INF/6, found at [http://www.wipo.int/export/sites/www/meetings/en/2011/wipo\\_ip\\_ge\\_11/docs/study.pdf](http://www.wipo.int/export/sites/www/meetings/en/2011/wipo_ip_ge_11/docs/study.pdf). Visited Aug. 1, 2012.

11 For instance, the pool 3C DVD case in CADE, *Averiguação preliminar n° 08012.001315/2007-21* of May 13, 2009. The relevant cases are Conselho Administrativo de Defesa Econômica. *Averiguação Preliminar n° 0812.001315/2007-21*, Representantes: Gradiente Eletrônica S.A. e Cemaz Indústria Eletrônica da Amazônia S.A. Representadas: Koninklijke Philips Electronics, N.V. e Philips do Brasil Ltda. Relator: Conselheiro Olavo Zago Chinaglia, 13 mai. 2009; Conselho Administrativo de Defesa Econômica. *Ato de Concentração no 08012.008810/2009-23*, requerentes: Sony Corporation, Koninklijke Philips Electronics N.V., Panasonic Corporation, Hitachi Consumer Electronics Co. Ltd., Samsung Electronics Co. Ltd. e Cyberlink Corp., rapporteur: Conselheiro Carlos Emmanuel Joppert Ragazzo, 29 jun. 2011.

12 Monteiro and Torres, cit.

13 Non-corrective sunglasses (2004) SEAE's Technical Report n. 06102/2009/RJ/COGDC/SEAE/MF; Cement (2005-2006) SEAE and SDE's Jointed Technical Report n. 07/2006/SEAE/MF-SDE/MJ; Concrete reinforcing bars (2006).

14 "Recent restructuring of the Brazilian standardization system SINMETRO and the necessity of national standard settings to comply with international standards aim to bring competitiveness to Brazilian products as well as to protect the consumer. In this context, the activity of establishing voluntary standardization is raising competition authorities concerns about not being discriminatory and enhancing fair competition. Although Brazilian System of Defense of the Competition (SBDC) mechanisms can correct the drawbacks of a standard setting through the analysis of anticompetitive conducts under the Federal Law 8884/1994, it has become clear that additional competition advocacy activities should be done ex-ante and/ or ex-post standardization, in order to prevent or end their anticompetitive effects. However, even doing so, the competition authorities "intervention should not be seen as necessarily implying expected outcomes." Monteiro and Torres study, cit., p. 218.

15 "The strange thing about the dog is that it did not bark in the night, my dear Watson." See, however, our notes on the open software standards below.

### *The content of this paper*

Even though lacking a specific public policy towards the interface of Intellectual Property considerations and standard-setting procedures, there are standard-setting statutes and institutions. On the other hand, public purchase is a very important aspect of Brazilian economy, and Government induced or created standards in connection with its purchases are provided by law and to a certain extent enforced.

Furthermore, regarding a specific standard-setting procedure, which is, the industry-generated standards covered by patent pools, there are some limited but significant precedents by the competition authorities. An analysis of such precedents and a prospect of their future reaction to similar cases are offered.

### **The Brazilian environment**

#### **Policies and practices of major domestic SDOs**

Federal Law 5966 in December, 1973 instituted the Brazilian National System of Metrology, Standardization and Industrial Quality (SINMETRO). This system includes within the Ministry of Development, Industry and Foreign Trade (MDIC) a normative body – the Brazilian National Council of Metrology, Standardization and Industrial Quality (CONMETRO) -; and an executive agency, the National Institute of Metrology, Standardization and Industrial Quality (INMETRO). At the Metrologic side of its jurisdiction, SINMETRO also includes all State agencies in charge of such service.

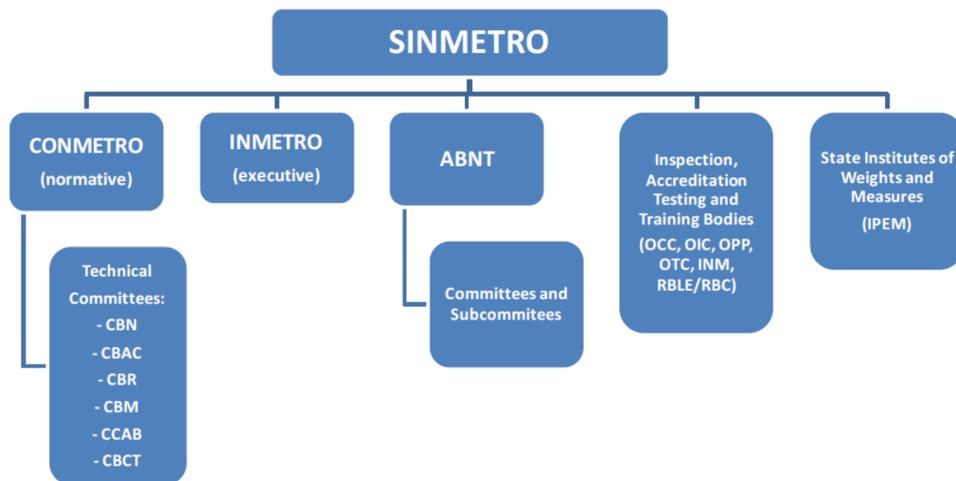


Figure drawn from Monteiro and Torres, op. cit.

As can be seen from the figure above, a private institution is a privileged member of the SINMETRO system: ABNT, which is officially recognized<sup>16</sup> as declared the *only* National Forum for Standardization. Created in 1940, ABNT is maintained through public and private funding, but essentially is the private partner of the standard-setting procedure in Brazil, and related to all relevant International organizations<sup>17</sup>.

Within SINMETRO, standards are preferably imported or created through ABNT. As the stated policy of ABNT<sup>18</sup> is to utilize International standards whenever available as reference of the local work, this double linkage assures that Brazilian standards, including those adopted by CONMETRO as mandatory, tend to be at least compatible with their International counterparts.

ABNT has a series of specialized bodies, open to interested parties, where the Brazilian Standards are discussed and proposed. Standards are issued by ABNT or eventually adopted as mandatory by means of a procedure open to the society as a whole, where public consultation is usually the determining factor.

As to the interface of such standard-setting activities with IP and competition concerns, there is no formal procedure either in CONMETRO legislation or internal ABNT rules to assure that in every pertinent case a specific protocol should be followed. However, as mentioned above, at least in some recent cases the antitrust authorities were called to participate.

In the Concrete reinforcing bars case, the reasons to call the antitrust authorities were:

- (i) the high degree of concentration of industry (there were only 3 domestic producers at the time);
- (ii) the previous history of price increase and anticompetitive conduct in the market; and
- (iii) the product's relevance as an input for civil construction, a basic economy industry sector<sup>19</sup>.

In the cement case:

In Brazil, since the end of the 90's, the cement industry has been restructured. There had been an increase in the degree of concentration and vertical integration, as well as an increase in the foreign groups "market share". About vertical integration, the tendency towards the buying of concrete companies revealed the largest groups "strategy" of expanding their activities in the upper stages of the supply chain, which

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16 Through CONMETRO Resolution 7.

17 International Organization for Standardization (ISO), International Electrotechnical Commission (IEC), Pan-American Standards Commission (COPANT), MERCOSUL Association for Standardization (AMN), Global Ecolabelling Network (GEN).

18 ABNT Resolution n. 43/2002.

19 Monteiro and Torres, cit. p. 214.

have greater added value. At the time, of the 10 cement industry groups in Brazil, only one hadn't act in the concrete market<sup>20</sup>.

As to the IP interface, ABNT staff stresses that any possible consideration is taken to prevent a negative result of the standard-setting in face of IP exclusivity<sup>21</sup>. However, as mentioned, no stated rule exists in this sense.

## **Recent evolution of national institutions**

### National participation in international/multilateral SDOs

As mentioned, ABNT is connected with the relevant International standard-setting organizations. At Mercosur level, ABNT is a member of the AMN - Associação Mercosul de Normalização, together with the Instituto Argentino de Normalización, Instituto Nacional de Tecnología y Normalización, Instituto Uruguayo de Normas Técnicas, IBNORCA (Bolivia) and INN (Chile).

INMETRO, the Federal executive agency in charge of issuing technical regulations, is the Brazilian representative in IAF (International Accreditation Forum); IAAC (Interamerican Accreditation Cooperation); ILAC (International Laboratory Accreditation Cooperation); OIML (International Organization for Legal Metrology); IATCA (International Auditor and Training Certification Association); and BIPM (Bureau International des Poids et Mesures). The agency INMETRO also has cooperation agreements with the following entities: UKAS (United Kingdom Accreditation Service); NIST (National Institute of Standards and Technology) and PTB (Physikalish Technishe Bundesanstalt)<sup>22</sup>.

There are no published programs contemplating institutional participation in industry-generated standards, either locally or abroad.

### Evolution of public purchase system

Brazilian standard-setting system has not subject to any overhaul in the last decade. Up to this moment, there was no institutional reaction to the emergence of industry-generated standards and its influence in Government purchasing processes or on the Brazilian economy as a whole.

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20 Idem, p. 215. The third case mentioned by the authors is not an ABNT calling to participate in the standard-setting procedure, but an antitrust action opened by the authorities against ABIÓPTICA Stamp of Origin and Safety. That is to say, a certification measure. The investigating authority concluded that there was sufficient indicia of an antitrust violation, and sent the case to the adjudicating authority (CADE). See: Process 08012.010648/2009-11, Jan 11, 2012. Official Gazette, Jan. 12, 2012, p. 44.

21 ABNT indicated to a GIPI inquiry that they have as an unwritten policy to strive to exclude from standards any IP that could favor specific private parties.

22 As INMETRO is both a Metrologic and standard-setting authority, some of the International entities are certainly not SDOs.

However, from December 2010, Brazilian Public Contract Law was changed in such a way as to allow technology and industrial policy considerations to be introduced as a relevant award motive<sup>23</sup>. The change affected Federal, State and Municipal public contract law, even though the pertinent regulations confer a leading role to the Federal Government to indicate which sectors and margins within which these non-monetary filters would be applicable. The new statutory environment is directed to develop national standards, especially in IT technologies<sup>24</sup>.

Some specific sectors were covered by specific statutes modifying the public contract law intending to induce new technologies, for instance, the defense sector<sup>25</sup>. The National Law dealing with the 2014 World Soccer and 2016 Olympics (Law 12.462/2011) also took new and significant steps to create a more ductile public contract law<sup>26</sup>.

A legislation proposed by the Executive Power and significantly changed by Congress has favored the public-private partnerships for the development of alternative and new technologies, dispensing tenders whenever the purchase of goods is conditioned to the generation or transfer of technology to public (federal or state) laboratories<sup>27</sup>.

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23 The effects of such new legislations, especially in which it regards to domestic innovation, is analyzed in BARBOSA, Denis Borges et alii. *Direito da Inovação*. Lumen Juris, 2011, p. 219-313. See also BARBOSA, Denis Borges; PLAZA, Charlene de Ávila. The role of government procurement in regard to development dissemination, and costs of climate change technologies. In: Joshua D. Sarnoff. (Org.). *Research Handbook on intellectual property and climate change*. 1ed. London: Edgar Elgar, 2012, v. 1, p. 3-18. Brazil is not a member of the WTO public procurement treaty. The reasons for choosing not to participate are studied at BARBOSA, Denis Borges. *Licitações, Subsídios e Patentes*. Rio de Janeiro: Lumen Juris, v. 1, 1997.

24 From the Executive Power bill remittance to Congress: “The proposal seeks to safeguard important systems of the Brazilian Government and mitigate dependence on goods and services over which it has poor knowledge management. These systems are materialized through continuing services, needed to the Administration to perform their constitutional, which can seriously interrupt the continuity of their activities. Thus, the acquisition by the country of these technologies is critical to ensure the sovereignty and national security. Additionally, the initiative helps the densification of the IT supply chain, with substantial and positive impact to job creation and strengthening of this important sector of the economy, a fact that is aligned with the strategic interest of the Government to develop the segments of these technologies in Brazil.”

25 Law 12.598/12. For obvious reasons, the incentive provided for such sector has significant effects in the standard setting of Brazilian public purchase. The Federal defense budget up to 2015 provides for R\$ 70 billion for the acquisition of equipment and material, whereas the corresponding numbers for the health are R\$60 billion. Brazil had a very significant local defense industry up the early 90's, especially in the tank and missile fields. The denationalizing policy of the Collor Government and the fact that Brazil was a relevant supplier to Iraq prior the first Gulf War were some of the factors that diminished the relative importance of the sector since then. The Ministry of Defense is taking the opportunity of the domestic development of the Brazilian nuclear submarine to recapture the interest of local groups. See SCHMIDT, Flávia de Holanda; MORAES, Rodrigo Fracalossi de; ASSIS, Lucas Rocha Soares de. *A dinâmica recente do setor de defesa no Brasil: notas sobre o comportamento da demanda e o perfil das firmas contratadas* p. 21, Radar 19, found at [http://www.ipea.gov.br/portal/images/stories/PDFs/radar/120522\\_radar19.pdf](http://www.ipea.gov.br/portal/images/stories/PDFs/radar/120522_radar19.pdf). Visited Aug. 2, 2012. For the legal status of the defense industry on Brazil, see BARBOSA, D.B.; TAPIAS, M. *Controle da Importação de Munições pela União Federal em Face do Tratado de Assunção*. Found at: [denisbarbosa.addr.com/arquivos/200/internacional/163.doc](http://denisbarbosa.addr.com/arquivos/200/internacional/163.doc). for an updating of such study, with some remarks on the local production of nuclear itens and the WTO treatment of the defense industry, see BARBOSA, Denis Borges. *Inexigência de motivação para as exceções previstas no Artigo XXI do Acordo Geral no âmbito da OMC. Importação de lítio*. Found at: <http://denisbarbosa.addr.com/litio.pdf>.

26 See FIUZA, Eduardo P. S. *Fiuzza, O Regime Diferenciado de Contratações Públicas e a Agenda Perdida das Compras Públicas*, p. 7-20, Radar 19, found at [http://www.ipea.gov.br/portal/images/stories/PDFs/radar/120522\\_radar19.pdf](http://www.ipea.gov.br/portal/images/stories/PDFs/radar/120522_radar19.pdf), visited Aug. 2, 2012.

27 Medida Provisória N° 563, April 3, 2012 the converted Law as modified by Congress was not sanctioned or vetoed at the moment this paper.

## *Effects of standard setting in Brazilian Public Contracting*

In Brazil, Government procurement resources are estimated to cover 10% of GDP<sup>28</sup>, and mobilize key sectors that adjust to the demands set out in the bidding documents<sup>29</sup>. In this sense, is the enormous responsibility of public managers responsible for defining the rules to ensure free competition, without losing sight of the interest in having the best product or service, at the lowest price<sup>30</sup>.

According to the National Public Contract Law<sup>31</sup>, art. 15, I whenever possible, purchases must follow a *ad hoc* standardization of material and services internal to the specific Governmental entity<sup>32</sup>, taking into consideration “technical compatibility and performance, subject, where applicable, the conditions of maintenance, service and warranties”<sup>33</sup>.

As indicated by commentators, it is not a faculty but a duty imposed to the Public Administration:

“... In short, the Public Administration, wherever possible, must adopt a standard, or model, among the several similar goods findable on the market, or create its own standards, unmistakable with any other existing in trade. In the first case, it will choose a brand (real estate), a breed (animals), a type (food). In the second case, Government shall indicate how it wants the good to be...”<sup>34</sup>.

The standardization procedure is a specific, and independent from the administrative procedure targeted to the purchase itself<sup>35</sup>. The National law

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28 The number is provided by the Federal think tank IPEA, and refers to 2010. Found at [http://www.ipea.gov.br/desafios/index.php?option=com\\_content&view=article&id=2746:catid=28&Itemid=23](http://www.ipea.gov.br/desafios/index.php?option=com_content&view=article&id=2746:catid=28&Itemid=23), visited June 21, 2012.

29 For a recent analysis of the impact of Brazilian public procurement in the domestic economy, see SCHMIDT, Flávia de Holanda and ASSIS, Lucas Rocha Soares de, O Estado como cliente: características das firmas industriais fornecedoras do governo, Radar 17, p. 9, found at [http://www.ipea.gov.br/portal/images/stories/PDFs/radar/111220\\_radar17.pdf](http://www.ipea.gov.br/portal/images/stories/PDFs/radar/111220_radar17.pdf), visited Aug. 2, 2012

30 As mentioned, Law 12.349/2010, an executive decree approved by the Congress, has proposed technology development as a separate criterion in a bidding process, to be considered alongside with the lower price one. Therefore, the price factor is not anymore the exclusive or almost exclusive one.

31 Law 8666/93, applicable in this context to state and local purchases.

32 This *ad hoc* standardization, internal to the Government entity, must be distinguished from a abstract procedures of standardization, as defined in ISO/IEC 2:1991 and TBT/WTO, Anex 1.

33 Lei nº 4.150, de 21 de novembro de 1962 also establishes the compulsory preparation and observance of technical standards in contracts for works and purchases of public service either by direct execution, concessions, autonomous agencies or public-private corporations, through the Brazilian Association of Technical Standards.

34 “... em síntese, cabe a Administração Pública, sempre que possível, adotar o estander, o modelo, dentre os vários bens similares encontráveis no mercado, ou criar o seu próprio padrão, inconfundível com qualquer outro existente no comercio. Na primeira hipótese, acolherá, conforme o bem, uma marca (bens imóveis), uma raça (animais), um tipo (alimento), por exemplo. Na segunda hipótese, indicará como deve ser o bem desejado...” (Diógenes Gasparini - Direito Administrativo, Editora Saraiva, n.5, p 379, 2001). In the same sense, MEIRELLES, Hely Lopes. Direito Administrativo Brasileiro. 22ª ed. Malheiros: São Paulo, 1997. MELLO, Celso Antônio Bandeira de. Elementos de Direito Administrativo. 3ª ed. Malheiros: São Paulo, 1992. MOTTA, Carlos Pinto Coelho. Eficácia nas licitações & contratos. 7ª ed. Belo Horizonte: Del Rey, 1998. FIGUEIREDO, Lúcia Valle. Curso de Direito Administrativo. 3ª ed. Revista e atualizada.

35 The standardization procedure is analyzed in MOTTA, Carlos Pinto Coelho, Eficácia nas Licitações e Contratos, 7ª ed. Belo Horizonte: Del Rey, 1998.

does not provide for a uniform standardization system, which shall be regulated by administration or agency<sup>36</sup>. However, the law also generally proscribes a preference for a certain brand<sup>37</sup>.

Zanetti<sup>38</sup> have indicated that this *ad hoc* standardization procedure tend to favor foreign bidders as they are prone to adopt international patterns and products.

### ***Open Standards as a policy option***

The Instituto Nacional de Tecnologia da Informação (National Institute of Information Technology) – ITI, is a Federal entity closely linked to the President of the Republic; one of its chief purposes is to create the basis for a Federal policy towards the adoption of open standards software for the Brazilian Federal Government<sup>39</sup>. It is a procurement policy.

The Free software in Government movement started in Brazil in the State of Rio Grande do Sul, as a means to overcome budget constraints on procuring, but soon took a more libertarian approach<sup>40</sup>. This aspect finds an expression in the words of Sergio Amadeu da Silveira, a former ITI president:

I'd like to register that the purchase of software that preserves the values of openness and freedom is, for the Brazilian government, a subject unavoidably connected to the democratic principle. And as it has been a long and painful path to reach our current

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36 Law 8666/93 deals with the problem of standardization in Art. 7º, §5º (Public works and services) and Art. 15, §7º, I (goods). As to the preference of brands, see Arts. 15, § 7º, I, and e 25, I, of Law 8.666/1993. Federal Court of Accounts full bench decision 664/2001 covers the issue as a binding precedent in regard to the Federal Administration: '... in tender proceedings, refrain from adopting brand preference, unless it is demonstrated, technically and in detail, that only that brand meets the specific needs of the Administration ...' [...nos processos licitatórios, abstenha-se de adotar preferência de marca, a menos que seja demonstrado, tecnicamente e de forma circunstanciada, que somente aquela marca atende às necessidades específicas da administração...].

37 See also the precedential decisions of the Federal Court of Accounts Decisão 1.476/2002-TCU-Plenário, 615/2003-TCU-2ª Câmara; 1.437/2004-TCU-1ª Câmara; 520/2005-TCU Plenário; 1.010/2005-TCU-Plenário; 1.334/2006-TCU-Plenário; 1.373/2004-TCU-2ª Câmara, 664/2001-TCU-Plenário (TC 001.189/2001-5 Ata nº 35/2001). Many of those decisions relate the indication of a brand in case of toner inputs to printers.

38 Zanetti, Fabiola W., cit.

39 See <http://www.iti.gov.br>. “The current government left clearly in some chances that it supports the adoption and the production of free software as a new paradigm that makes possible the growth and strengthening of the industry, generating jobs and income. It sees the speech of the Minister Jose Dirceu made in the opening of the Seminary of Free Software organized by the National Congress. President Luís Inácio Lula Da Silva, in Decree of 29 of October of 2003, instituted eight technical committees with the objective to co-ordinate and to articulate the planning and the implementation of free software, digital inclusion and integration of systems, amongst other related questions. Currently, the National Institute of Technology of the Information - ITI co-ordinates the Technical Committee of Implementation of Free Software. The Committee of Free Software approved, at 02 of October, the final report that traces lines of direction, objectives and action for the implantation of programs of code opened in the public administration. Eighteen directives, twelve targets and 29 priority actions form the set of conducts shall guarantee the migration”.

40 Buainain, Antonio M. and Mendes, Cassia I. C., Free Software and Intellectual Property in Brazil: Threats, Opportunities and Motivations. Review of Economic Research on Copyright Issues, Vol. 2, No. 2, pp. 95-109, 2005. Available at SSRN: <http://ssrn.com/abstract=1145882> and G. Câmara and F. Fonseca, “Information policies and open source software in developing countries,” Journal of the American Society for Information Science and Technology, vol. 58, Jan. 2007, p. 121. See also MIZUKAMI, Pedro Nicoletti and LEMOS, Ronaldo, From free software to free culture: the emergence of open business, [http://www.law.yale.edu/documents/pdf/isp/a2kbrazil\\_bkmk.pdf](http://www.law.yale.edu/documents/pdf/isp/a2kbrazil_bkmk.pdf), visited on Sep. 12, 2012. For a rather critical view of such policies, see Lawrence A. Kogan, “Rediscovering the Value of Intellectual Property Rights: How Brazil's Recognition and Protection of Foreign IPRs Can Stimulate Domestic Innovation and Generate Economic Growth,” International Journal of Economic Development, vol. 8, 2006, pp. 17-307.

democratic developmental stage in this country, we will not walk out [of] our fight. If democracy is a value full of ideology, it will never be an insignificant value. If democracy is a dream, it's the one dream this country will never wake up from. The future is free <sup>41</sup>.

Although not centrally related to the subject of this research, this standard-related set of policies would be possibly one of the most striking Government-promoted IPR actions in Brazil <sup>42</sup>.

### TBT concerns related to IPR

INMETRO is the agency designated to act as the WTO Enquiry Point in Technical Barrier issues <sup>43</sup>. It is empowered therefore to inform the TBT/WTO Secretariat about the Technical Regulations applied and about the conformity assessment procedures applied in the country; and it shall carry out the duty as an Enquiry Point, through an exchange of information, whenever required by other WTO members, on the Technical Regulations, Standards and conformity assessment procedures.

The most conspicuous issue relating TBT and IPRs is a recent sanitary regulation of tobacco products, which affects particularly trademark holders. According to WTO <sup>44</sup>,

Brazil has introduced a new draft regulation establishing the maximum permissible levels of tar, nicotine and carbon monoxide in tobacco products, and prohibiting the use of all additives in these products (G/TBT/N/BRA/407 — notified to the WTO on 29 November 2010).

Producers and exporters of Burley and Oriental varieties of tobacco perceive the ban on additives to be a de facto prohibition on 'blended' tobacco products (conventionally produced by blending these varieties of tobacco with a number of additives) in the Brazilian market. About 15 members said that this regulation was more trade restrictive than necessary to achieve Brazil's objective. This was particularly important for some countries, including African and least-developed countries (Zambia, Tanzania, Dominican Republic, Mozambique, Kenya), which depend on the sale of Burley and Oriental tobacco for national revenue.

Most members argued that Brazil gave insufficient scientific evidence justifying that additives made tobacco products more dangerous to health, or more attractive to consumers, especially young ones.

Brazil is not the only WTO member targeting tobacco products. Other members have taken similar measures to prohibit additives in tobacco products in line with the guidance of the WHO Framework Convention on Tobacco Control. Canada's

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41 As reported in THOMPSON, Marcelo, The Democracy of FLOSS: Software Procurement under the Democratic Principle, found at <http://www.uoltj.ca/articles/vol5.1-2/2008.5.1-2.uoltj.Thompson.79-124.pdf>, visited on Sep. 12, 2012.

42 During the President Lula Administration these policies found a close counterpart in the creative commons or similar actions advanced by the Ministry of Culture. The very recent change of the Minister of Culture may signal a new beginning in this approach.

43 Information found at: <http://www.inmetro.gov.br/english/international/focalPoint.asp>. Visited June 20, 2012.

44 Found at: [http://www.wto.org/english/news\\_e/news11\\_e/tbt\\_24mar11\\_e.htm](http://www.wto.org/english/news_e/news11_e/tbt_24mar11_e.htm). Visited Aug. 11, 2012.

measure (Bill C-32) was debated in the last Technical Barriers to Trade (TBT) meeting, and some members reverted to this issue.

The draft regulation was eventually issued by ANVISA, the health regulatory agency through Resolução da Diretoria Colegiada da ANVISA nº 14, de 2012 (“RDC 14/2012”) <sup>45</sup>.

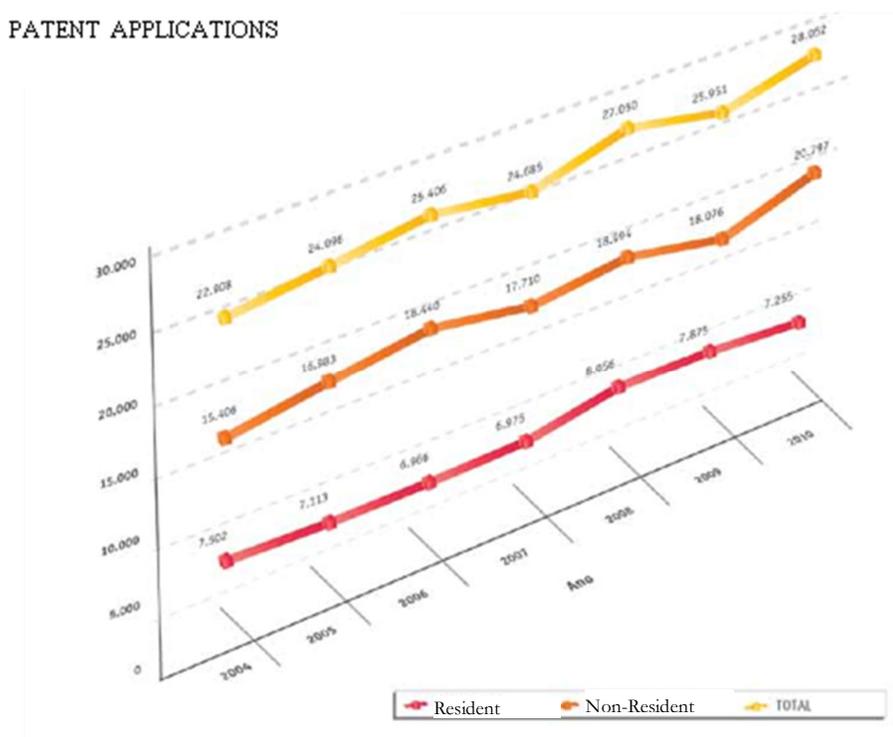
### Evolution of the patent system

In a recent study it was noted:

Brazil is listed among the emerging markets, and a potential prime player in the Intellectual Property field. Although the country has a long history and have been displaying its continued interest in the patent system, it should not be expected that Brazilian patents should be flooding the patent offices of OECD countries, as Chinese and to a lesser extent Indian filings are to be soon<sup>46</sup>.

A crucial aspect of public policies regarding patent in Brazil (as in many other countries) is the unbalance between local and foreign filings and patent grants.

This INPI graphics<sup>47</sup> illustrates such trend:



<sup>45</sup> The effect of such technical regulation upon trademarks is extensively analyzed in BARBOSA, Denis Borges. Marca e a regulação, July 2012, found at: [http://www.denisbarbosa.addr.com/arquivos/200/propriedade/marca\\_e\\_regulacao.pdf](http://www.denisbarbosa.addr.com/arquivos/200/propriedade/marca_e_regulacao.pdf).

<sup>46</sup> BARBOSA, D. B., Patents and the Emerging Markets..., cit.

<sup>47</sup> Found at: [http://www.inpi.gov.br/images/stories/downloads/pdf/INPI\\_Relatorio\\_Comunicacao.pdf](http://www.inpi.gov.br/images/stories/downloads/pdf/INPI_Relatorio_Comunicacao.pdf). Visited February 2012.

<b>APPLICATIONS</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Patent Invention - IP</b>	6.291	6.334	6.057	6182	6866	6308	6935
Resident	3.929	3.902	3.823	3.976	4.752	4.335	4.202
Non-Resident	2362	2.432	2.234	2.206	2.114	1.973	2.733
<b>Utility Model - UM</b>	3.480	3.126	3.048	2.874	3.208	3.381	2.945
Resident	3.433	3.075	2.996	2.840	3.152	3.349	2.857
Non-Resident	47	51	52	34	56	32	88
<b>Addition Certificate - AC</b>	118	118	113	136	135	128	119
Resident	111	112	106	122	122	122	115
Non-Resident	7	6	7	14	13	6	4
<b>Patent Cooperation Treaty -PCT</b>	13.019	14.518	16.188	15.493	16.841	16.134	18.052
Resident	29	24	41	37	30	69	81
Non-Resident	12.990	14.494	16.147	15.456	16.811	16.065	17.971
<b>TOTAL</b>	22.908	24.096	25.406	24.685	27.050	25.951	28.051

As can be seen, taking into consideration all kinds of patents, local filings in 2010 represent only 25,86%. Excluding utility models, the local filings represent only 20,68%. According to its 2012 data<sup>48</sup>, WIPO indicates that on a global average 62% of patent filings are local. It must be noted that utility models, which represents roughly one third of all local filings, have been plummeting in the last years: the 36% drop in 2010 as compared to 2009 represents the most severe loss within the 15 top PTOs.

Comparing the growth of local filings (non-PCT) in the period 2004-2010 (6,49%), with the increase of overall filings (18,33%), it could be argued that the trend points out to an even lower domestic rate in the future.

Such data is reiterated by WIPO's 2012 Intellectual Property Statistics. Two trends are relevant: global filings are growing, in such a way that "Brazil changed places with the United Kingdom (UK) to become the eleventh top office in terms of patent applications". Even though this comparative growth, 2012 data shows that filings in Brazil represent only 1,1 % of global filings.

48 [http://www.wipo.int/freepublications/en/statistics/943/wipo\\_pub\\_943\\_2012.pdf](http://www.wipo.int/freepublications/en/statistics/943/wipo_pub_943_2012.pdf) p. 13. Visited: August 1, 2012.

On the other hand, Brazilian use of PCT filings is quite limited: in 2007, 398; in 2008, 472; in 2009, 492; in 2010, 488; in 2011 (August 2012 data), 564.

The possible conclusion from these numbers is that the patent system in Brazil, as compared with the world average, represents circa one third of the standard allocation of local filings. The access of Brazilian filings to the International system has represented to this date a rather limited resource.

### *The Brazilian patent office as a source of problems*

As the Federal Agency in charge of examining and granting patents, the Brazilian Patent and Trademark Office (INPI) is necessarily a major player of the IP system. Some indicators, however, could signify that such agency is at this stage a part of the problem.

The deposits of applications for patents have increased significantly each year and the number of examiners for these examinations to be performed with adequate quality and precision does not grow with demand.

<b>PATENT APPLICATIONS DECISIONS</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010*</b>
Shelved	9.232	14.611	9.460	9.363	12.401
Denied	1.066	824	2729	2499	3394
Patent Granted	2.785	1855	2824	3153	3620
Renouncement	77	43	52	62	56
<b>TOTAL</b>	<b>13.160</b>	<b>17.333</b>	<b>15.065</b>	<b>15.077</b>	<b>19.471</b>

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Considering 2010:

- (a) Some 163,000 patent applications were pending of analysis<sup>50</sup>.
- (b) In that year the agency received circa 28.000 filings of all kinds, examined almost 20,000 applications and granted 3,620 patents.
- (c) The PTO had 273 patent examiners in all areas, whereas the demand was at least 300 examiners.

49 Data found at: [http://www.inpi.gov.br/images/stories/downloads/pdf/INPI\\_Relatorio\\_Comunicacao.pdf](http://www.inpi.gov.br/images/stories/downloads/pdf/INPI_Relatorio_Comunicacao.pdf). Visited August 1, 2012.

50 Data obtained from the document of the Federal Prosecutor Office, found at: [http://ccr3.pgr.mpf.gov.br/institucional/grupos-de-trabalho/mercado-de-capitais/planejamento\\_estrategico/diagnostico\\_inpi-final](http://ccr3.pgr.mpf.gov.br/institucional/grupos-de-trabalho/mercado-de-capitais/planejamento_estrategico/diagnostico_inpi-final). Visited August 1, 2012. This document indicates a backlog of 154.000 in 2009. Taking into account the non-examined applications filed in 2010, the backlog was then 164.000. Further data obtained at: <http://cit.ifg.edu.br/index.php/component/content/article/42-geral/164-resolver-backlog-de-patentes-e-prioridade-do-inpi>. and <http://www.andef.com.br/eventos/cipiagri2011/palestras/LianeLage.pdf>. Both visited February 2012.

By 2011, the *expected* period for examination of a patent was an average of 8.3 years<sup>51</sup>. From this situation may arise three scenarios<sup>52</sup>:

- a) The PTO chooses to shorten the allowed time for examination of each patent, without increasing the number of examiners. In this case, the quality of the examination will be compromised, since the examiner will not have time to do research necessary to assess the novelty and inventive activity in the case of patent - PI and novelty and inventive step in the case of the utility model patent - MU.
- b) The PTO chooses not to increase the number of examiners, neither to compromise the quality of the examination. In this the backlog will stay growing.
- c) The PTO chooses to increase the number of researchers and their expertise in each area, choosing also to create a system of assessment and administration of the examination of these patents more efficiently.

In situation A, an examination performed poorly, with no quality of the research requirements for granting a patent, particularly with respect to the techniques to verify the novelty and inventive activity in the case of inventions and novelty and inventive act in the case of utility models - will result in a weak patent. This patent is easy object of administrative proceedings for nullity and judicial action or declaration of nullity.

For investors, foreign or domestic, this means increased uncertainty. The scenario complicates the confidence of investors as they increase their demand for patent applications within and outside the country.

In situation B, investors will also undergo considerable economic and legal uncertainty, since, as we know, investments and even marketing the product or process subject of the patent frequently occurs before his granting.

This uncertainty is two-pronged: once granted, the effects of the patent in Brazil are retroactive, essentially going back to the date of the publication of the filed application. Therefore, third parties have to take considerable risks when assessing the impact of the new patent in their manufacturing, as the content of the application may vary from its initial form.

Furthermore, Brazilian Law assures a minimum term of 10 years post-grant (7 years for utility models), when the PTO is responsible for the delay. Therefore, the economic effect of the back-log is an increased deterrence towards third parties, affecting competition. Many observers indicate that for

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51 According to the Federal Prosecutor Office's document, backlog was 10.35 years in 2008 and 10.25 years in 2009.

52 For such scenarios and other consideration, see SILVA, João Gilberto Sampaio & BORSCHIVER, Suzana. Critérios para a avaliação dos sistemas patentários. Revista da ABPI - Jan./Fev. 2009, p. 30 a 41.

this reason the back-log is not fiercely opposed by the major International players.

In the case of patents abandoned by delay in examination and loss of interest in protecting, the negative scenario for Brazil is no different, considering the arguable withdrawal of investments in production and marketing of their products and processes in the country, especially in this case by local players.

C is the option that we believe is the most appropriate solution to the problem, affording more quality patents granted in the country. As would be expected, the strategic plans of the PTO indicate that as the preferable option, as discussed below.

By early 2011, PTO indicated its intent to solve the backlog of issues by 2015. The agency intended to achieve the goal and grant patent quality in a maximum of 4 years from the date of deposit.

In September 2011, the President of the PTO indicated such measures as liable to achieve such goals:

1. Increased operational efficiency of patent examination sector with the creation of an electronic system for patent applications;
2. Hiring more examiners with master and doctor degrees for the specific areas of examination.
3. Update the guidelines and procedures for the examination of patents.
4. Ongoing training and development of patent examiners.
5. Direct most of the national applications to the PCT system whenever possible.
6. Automatically eliminate formally unsuitable applications through the electronic filing system.
7. Give priority to examination of applications for areas considered as strategic to the economic and technological development of the country.
8. Increase technical cooperation with other patent office's aiming at internationalization of the exams.
9. Strengthen the system of subsidy to technical examination and post-award as a way to grant patents with higher quality and greater legal certainty.
10. Provide information and propose changes to the PCT system to increase the quality of technical information (international search and examination) offered by the international authorities to national and regional offices of patents.
11. Revision of the rules of the Directorate of Patents, in particular, aspects related to processing of applications for patents and patent applications for utility model, strongly differentiating the two procedures.

The Report of the Federal Controller Court of Sep. 21, 2011 (Ata 39/2011) – however, does not feel this target as attainable:

In terms of productivity, we have that in 2009; the PTO had 223 patent examiners working in the area of granting patents, according to the Statistical Bulletin of the PTO. These 223 examiners, in turn, were able to assess 15,077 cases in 2009, leading to a per capita production of 68 cases per examiner / year. In turn, in 2010 the number of examiners increased to 273, and these were able to assess 19,471 cases, representing 71 cases per examiner / year.

For this reason, the simulations presented in Table 15, was considered for the years 2010 and 2011, an average of 70 cases per examiner / year as an indicator of productivity. Was used as a premise that productivity increased to 80 cases per examiner / year for the years 2012 to 2015 as a result of the measures of "Project Backlog Solution Patent." This increased productivity is also quite optimistic, representing a growth of approximately 15% in the productivity of patent examination, and it is known that it takes on average three years for new examiners reach the productivity levels of the most experienced.

Clearly, therefore, it takes a very optimistic scenario for the purpose of reducing the period of analysis procedures for the granting of patents for less than four years is achieved by the year 2015. This finding, however, belies the measures that have been taken by the PTO to control the backlog of patents. The Federal Government should, as far as possible, grant the PTO granted the means necessary for it to increase its capacity to process analysis.

### The INPI role in screening technology and other IP contracts

Since 1945, Brazilian Law imposes registration with the INPI of licenses of patents, designs, trademarks and certain other IPRs in order to confer to such agreements certain specific legal effects<sup>53</sup>. Since 1971, statute has also imposed registration with the INPI of a number of contracts, other than licenses of IPRs, as know-how, technical service and eventually franchising agreements<sup>54</sup>.

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53 For the issues discussed generally in this report, see Franco, Karin Klempp, A Regulação da Contratação Internacional de Transferência de Tecnologia - Perspectiva do Direito de Propriedade Industrial, das Normas Cambiais e Tributárias e do Direito Concorrencial. 2010. Tese (Doutorado) - Universidade de São Paulo, Orientador: Calixto Salomão Filho, p. 92, found at [http://www.teses.usp.br/teses/disponiveis/2/2132/tde-11112011-100327/publico/Microsoft\\_Word\\_VersaoParcial.pdf](http://www.teses.usp.br/teses/disponiveis/2/2132/tde-11112011-100327/publico/Microsoft_Word_VersaoParcial.pdf), visited on May 5, 2012.

54 The law submits to registration all agreements related to Intellectual Property Rights (IPRs, that is to say, exclusive rights), including inter alia license and assignment contracts of patents, designs and trademarks. Art. 211 of the law also brings to the scope of registration by INPI "technology contracts" and franchising contracts, that is to say, non-IPR contracts. There is no positive list of what are technology contracts, but know how contracts under the denomination of Technology Supply Agreements are certainly included thereto. The current regulations offers a negative list, that is to say, contracts that are not subject to registration. Thus, the Resolução 267, de 5 de abril de 2011 - Instituto Nacional de Propriedade Industrial (DOU 28.4.2011) lists the technical assistance services that are not subject to registration: 1. Commercial Agency, including logistics (shipping support, administrative tasks related to customs clearance, etc...); 2. Services conducted abroad without the presence of technicians from the Brazilian company, which does not generate any documents and/or reports, such as: processing of products; 3. Homologation and quality certification of products; 4. Consulting in the financial area; 5. Consulting in the commercial area; 6. Consulting in the legal field; 7. Consulting connected to bidding; 8. Marketing Services; 9. Consulting performed without going to the technical facilities of the transferee; 10. Services of support, maintenance, installation, implementation, integration, deployment, customization, adaptation, certification, migration, configuration, parameterization, translation or localization of computer programs (software); 11. Training services for end user training or any other computer program (software), pursuant to art. 11 of Law No. 9609 of February 19, 1998; 12. License to use computer programs (software).

### *The effects sought through the registration*

The legal effects resulting from registration may vary according with the statute than in force throughout the time<sup>55</sup>. As applied to the whole period at stake, the following effects of a registration apply<sup>56</sup>:

(1) The extension of legal effects of private agreements, which would otherwise be restricted to the parties executing the document, to affect the legal environment of third parties.

The relevant statute so reads<sup>57</sup>:

(Patents and designs)

Article 59 - INPI will make the following notations: I - assignments, mentioning the complete qualification of the assignee; II - any limitation or onus applied to the application or patent; and III - alterations of name, headquarters or address of the applicant or patentee.

Article 60 - Notations will produce effect with regard to third parties as from the date of their publication.

Article 62 - A license contract must be recorded at INPI to produce effect with regard to third parties. § 1 - The recordal will produce effect with regard to third parties as from the date of its publication. §2 - A license contract need not be recorded at INPI for it to have effect for validating proof of use.

(Trademarks)

Article 136 - INPI will make a note of the following: I - assignments, indicating the complete qualification of the assignee; II - any limitation or onus on the application or registration; and III - alterations of the name, headquarters or address of the applicant or registrant.

Article 137 - Notations will produce effect with respect to third parties as from the date of their publication.

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55 Generally, for the pertinent statutes and INPI practices in contract registration concerning the period since 1945, see *Contratos de licença e de tecnologia - A atuação do INPI (2002)*. Found at <http://www.denisbarbosa.addr.com/arquivos/200/propriedade/85.doc>, which is a chapter in the book *Uma Introdução à Propriedade Intelectual*, 2nd. Ed., Lumen Juris, 2003. A fuller review of the INPI treatment of all contracts subject to registration is Barbosa, may be read in DB, *Contratos em propriedade intelectual*, also chapter of the same book, found at [http://www.denisbarbosa.addr.com/arquivos/apostilas/ufrij/contratos\\_propriedade\\_intelectual.pdf](http://www.denisbarbosa.addr.com/arquivos/apostilas/ufrij/contratos_propriedade_intelectual.pdf).

56 In addition to those five effects it should be listed the registration intended to screen the transfer of technology through licenses of IPRs, know how and technical assistance contracts with the purpose of enforcing the industrial policy of the Federal Government. This effect ceased to be applicable under the 1996 statute and therefore is not relevant to the pertinent period. See as to that issue the article *Contratos de licença e de tecnologia - A atuação do INPI (2002)*, cited at note 3.

57 According to the official English translation of the Industrial Property Law provided by the INPI, as found in <http://www.inpi.gov.br/images/stories/Lci9279-ingles.pdf>. The statute currently distinguishes among the species of registration of contracts (a) the averbação [recordal], which refers to license of IPRs, (b) the anotação [notation], which means the notarial act following an assignment of IPRs whereby the transfer of title is actually carried out, and (c) the registro [also rendered as recordal in the official translation], which refers to the agreements concerning other intellectual property not dealing with exclusive rights. For our present purposes, all those species shall be denominated “registrations”

Article 140 - Licence contracts must be recorded at INPI in order to produce effect with respect to third parties. § 1 - Recordals will produce effect with respect to third parties as from the date of their publication. § 2 - In order to validate proof of use, licence contracts need not be recorded at INPI.

(Non-IPR Contracts)

Article 211- INPI will effect the recordal of contracts that involve transfer of technology, franchising contracts and the like so that they may produce effect with respect to third parties<sup>58</sup>.

(2) When an agreement is intended to transfer the title of an exclusive right to an assignee, the peculiar legal effect of such registration is to perfect this transfer<sup>59</sup>. The pertinent statutory basis is the same cited above, under the name of “notation”.

(3) The registration sought to obtain certain tax effects to the payments resulting from the agreement (Income tax deductibility<sup>60</sup>, prevention of transfer pricing, export or other incentives, *inter alia*).

(4) The registration sought to obtain certain effects related to exchange control and foreign investment laws, especially to allow the payments to be converted in foreign currency and remitted abroad<sup>61</sup>.

(5) The registration intended to assure compliance with Brazilian statutes and practices, especially those targeted to prevent restrictive business practices in the transfer of technology<sup>62</sup>.

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58 "If you are interested in object clauses to third parties, it may in theory would appeal to the usual registration in the registry of deeds and documents record that does not exclude any category of document faculty registration. However, the art. 211 of Law 9.279/96 has the effect of taking only the registration with the INPI act applies to the contract that the contract takes effect before third parties." [Havendo interesse em opor cláusulas contratuais a terceiros, poder-se-ia em tese recorrer ao registro usual no cartório de registro de títulos e documentos, que não exclui qualquer categoria de documento da faculdade de registro. Entretanto, o art. 211 da Lei 9.279/96 tem como efeito tomar somente o registro no INPI do contrato ato válido para que o contrato produza efeitos perante terceiros.] Franco, cit.

59 For such effects, see Barbosa, DB, Transferência de titularidade dos direitos da propriedade intelectual (abril de 2012), found at <http://www.denisbarbosa.addr.com/arquivos/200/propriedade/transferencia.pdf>.

60 These effects are analyzed in Barbosa, D.B., The Taxation of Technology Contracts in Brazil 1958-1994 (1994), found at [http://www.denisbarbosa.addr.com/arquivos/papers/taxation\\_technology.doc](http://www.denisbarbosa.addr.com/arquivos/papers/taxation_technology.doc). For further periods, see Barbosa, DB, The New Brazilian Patent Law, found at <http://www.patentlens.net/daisy/patentlens/2550.html>. Since 1975 the examination of the deductibility of IPR licenses, know how and technical assistance expenses was delegated by IRS to the Patent Office (INPI), which effected the assessment on an ex ante basis. The current treatment is fully analyzed by the tax associate of my firm, Siqueira, Marcelo Gustavo Silva, Da Limitação da Dedutibilidade de Royalties e Remuneração por Assistência Técnica – Uma Proposta de Análise Fiscal e Extrafiscal (Rev. ABPI vol. 107/jul.-ago. 2010, págs. 22-36).

61 For the effects of INPI registration concerning the exchange and foreign investment laws from 1971 to 1996, see Barbosa, DB, Tratamento do Capital Estrangeiro desde a Lei de 1962 até a Carta de 1988, found at <http://www.denisbarbosa.addr.com/arquivos/200/economia/29.doc> (up to 1990) and A Contratação de Tecnologia após o Governo Collor (after 1990), found at <http://www.denisbarbosa.addr.com/arquivos/200/economia/31.doc>. Those texts are chapters of the book Direito de Acesso do Capital Estrangeiro, (Direito do Desenvolvimento Industrial, vol. 1). Ed. Lumen Juris, 1996).

62 For such effects, see Barbosa, DB, Cláusulas Restritivas nos Contratos de Tecnologia (1981), found at <http://www.denisbarbosa.addr.com/arquivos/200/concorrenca/169.rtf>, and Tecnologia e Poder Econômico, published at the Revista Brasileira de Tecnologia do CNPq, 1984, found at <http://www.denisbarbosa.addr.com/arquivos/200/economia/50.doc>. For the statutory treatment after 1996, see

### ***The tax screening role***

The requirement of registering IPR and non IPR agreements before INPI to obtain certain tax effects to the payments resulting from such agreements results from the creation of INPI in 1970 and the promulgation of the new Industrial Property Code in 1971. It was recognized that INPI would be better able to assess the need and effectiveness of expenditures of the rights and services in question, both monetary and tax management authorities began to actively coordinate with the agency.

To seek the tax effects, INPI would check the possibility of actual provision of technical assistance, the existence of industrial property right, etc... More broadly, the agency would check as a specialized entity and ex ante, the need for spending and if this expenses are allowable as deductions.

It was also conferred to INPI the delegate power to exert the screening role of the requirements of IPR and non IPR agreements to be submitted to Central Bank of Brazil and allow the remittance of payment abroad.

### ***Nature of the tax and remittance screening role***

By reviewing the *tax* and *remittance* requests submitted to it, INPI does *not* grant a *vested right* that is irrevocably added to the powers of the requesting party. As delegated agent of the tax and exchange authority, it just conducts an *ex ante* review of the factual conditions that, under the statute, allows generally that some expenses may be deductible and some payments converted in hard currency.

That is to say, INPI may be second guessed by the delegating authority, as indicated by case law:

"As INPI is the specialized agency for the registration and protection of industrial property rights, and as it is empowered to register the contracts that involve transfer of technology in order to legitimate the payments arising therefrom and allow, where appropriate, tax deductibility, registration implies that the presumption of effectiveness and necessity of the transfer, this presumption can be rebutted by inspection, provided it brings evidence to the contrary." 1st Chamber of the 1st Board of Tax Appeals, Appeal No. 127268 on April 17, 2002. <sup>63</sup>

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Barbosa, DB, TRIPS e as Cláusulas Abusivas em Contratos de Tecnologia, a chapter of the book Uma Introdução à Propriedade Intelectual, cited. See also Barbosa, DB, Nota sobre práticas e cláusulas restritivas nos contratos de licença e de tecnologia (2005), found at <http://www.denisbarbosa.addr.com/arquivos/200/concorrenca/restritivas.doc> and Barbosa, DB, A criação de um ambiente competitivo no campo da propriedade intelectual o caso sul americano, found at <http://www.iprsonline.org/unctadictsd/docs/Barbosa%20FINAL%20formatado.pdf>, p. 175-186.

63 "(...) sendo o INPI o órgão técnico especializado para efetuar o registro e proteção dos direitos relativos à propriedade industrial, e competindo ao mesmo averbar os contratos que impliquem transferência de tecnologia, a fim de legitimar os pagamentos deles decorrentes e permitir, quando for o caso, a dedutibilidade fiscal, referida averbação implica presunção da efetividade e necessidade da transferência, presunção essa que pode ser elidida pela fiscalização, desde que traga provas em sentido contrário". 1ª Câmara do 1º Conselho de Contribuintes, quando do julgamento do Recurso nº 127.268, em 17 de abril de 2002. FILHO, Edmar Oliveira Andrade. Imposto de Renda das Empresas. Ed. Atlas. 6ª edição. 2009. São Paulo. Pg. 226 – 17.2.2 Registro no INPI

### *INPI procedure*

Those effects may be cumulatively obtained by requesting the registration from INPI and submitting the draft agreement to its analysis and approval<sup>64</sup>. The agency has three alternatives whenever examining a request for registration:

#### *Refusal of registration*

(1) It has power to refuse the registration, whenever the agreement as entered into by the parties does not fulfill the requirements of the law to the extent that the effects *sought by the requesting party* are not at all allowable. According to official data, only in 3% of cases of non-IPR contracts there is any refusal.

INPI has the practice of informing the submitting party of any issues it might have found in the text, to allow changes in case the party so prefers. But, as it will be explained below, it has no power to introduce changes of whatever form in the obligations as agreed between the parties. As it will be extensively evidenced, the contract is valid, effective and enforceable to the effects that are not dependent on INPI intervention, and therefore the compliance with INPI's requirements is not determinative of the effectiveness and enforcement of the obligations by themselves, short of the effects sought by the registration.

#### *Limited effects from registration*

(2) It has power to confer *limited* effects to the registration, for instance, allowing certain amounts as deductible expenses or remittable in foreign currencies (or both), whereas not recognizing such effects in regard to all payments provided for in the contract as executed by the parties<sup>65</sup>.

#### *Full effects from registration*

(3) It may simply register as requested.

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64 Barbosa, DB, A disciplina dos contratos de Transferência de Tecnologia, Annals of the XXVII Intellectual Property National Seminar of the Associação Brasileira da Propriedade Intelectual (ABPI) (2007), p. 169-176, found at <http://www.denisbarbosa.addr.com/arquivos/palestras/abpianais.pdf>

65 "The Certificate of Registration is issued and delivered to the party who requested it. It lists the specific data of the contract: parties, purpose, term, payment, designation of the withholding party of Income Tax purposes. The items relative to the payment and term are stated according to the the tax and exchange legislation applicable, independently of the content of the contract as executed between the parties". (My translation), Franco, cited.

## *No industrial policy to be enforced*

The agency has no power to impose changes in the agreement as executed by the parties, or to refuse effects of such contract on the basis of Federal industrial policy. Since 1996<sup>66</sup> the INPI lacks all discretionary power to evaluate whether the agreement is agreeable to the industrial purposes of Federal authorities and is bound to issue registration to the extent that the effects sought are compatible with the strict legal standards.

## *Evaluation of competition-related provisions*

As it occurs in a number of other jurisdictions, assignments, licenses and other contracts under the scope of INPI are subject to antitrust review, for which *primary* empowerment is conferred to the relevant agency of the Department of Justice. INPI has as a practice to carry out a preliminary review of such provisions that may be deemed in defiance of antitrust laws<sup>67</sup>. Parties are free to submit such cases to the Department of Justice<sup>68</sup>.

Even though reviewing such provisions that might be held to be sensitive to antitrust purposes, INPI does not impose changes into the contracts:

(...) instead of subjecting the registration of the contract to the exclusion of the relevant clause, the agency now issues the Certificate of Annotation accompanied by a

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66 As I mention in *The Taxation of Technology Contracts in Brazil 1958-1994* (1994), "Particularly from 1979 to 1990, INPI screening jurisdiction employed a substantive analysis, considering: "the availability of alternate sources of the same technology within the country; and "the national need of the technology (as distinct from firm's private requirements)." A series of such standards and the legal basis thereto was reviewed by the Federal Supreme Court and found sound and compatible with the law than in force. Supremo Tribunal Federal, RE-95382/RJ, Primeira Turma Min. Oscar Correa, RTJ VOL-00106-03 -01057, Julgamento em 05/08/1983. A fuller analysis of this industrial policy enforcement is found in our text *Tecnologia e Poder Econômico* (1984), mentioned in note 8. Adeodato, Benedito Fonseca e Souza, *A Transferência de Tecnologia e o INPI*, revista da ABPI, (23): 40-41, jul.-ago. 1996 and Pires, por Paulo Valois, *A Evolução da Transferência de Tecnologia no Brasil*, Revista da ABPI (14): 20-23, jan.-fev. 1995 both describe the motives of this change of perspective. See also Barros, Carla Eugenia Caldas, *Algumas considerações sobre a transferência de tecnologia no Brasil*. 1986. Dissertação - Pontifícia Universidade Católica do Rio de Janeiro, Co-Orientador: Denis Borges Barbosa.

67 "INPI continues, with the advent of Law 9.279/96, with legal authority to implement rules that regulate industrial property, given its economic function, social, legal and technical. A broad interpretation of the social, economic and legal industrial property allows us to infer that also includes aspects of competition generated by these rights." [Porém, entender que havia uma competência do INPI para a análise de aspectos concorrenciais em contratos de transferência de tecnologia anteriormente a 1996, cuja competência restou prejudicada pela retirada de suas funções relativas à instituição de "medidas capazes de acelerar e regular a transferência de tecnologia" não nos parece ser a interpretação correta. O INPI continua, com o advento da Lei 9.279/96, com a atribuição legal de executar as normas que regulam a propriedade industrial, tendo em vista sua função econômica, social, jurídica e técnica. Uma interpretação ampla da função social, econômica e jurídica da propriedade industrial permite-nos inferir que inclui também aspectos concorrenciais gerados por esses direitos. Mesmo a doutrina que alega a não existência de competência do INPI para verificar aspectos concorrenciais de transferência de tecnologia após o advento das Leis 4.137/62 e 8.158/91, citada supra, não se manifesta sobre o fato de que (i) a legislação que embasa a competência do INPI não ter sido alterada com o advento destas leis e (ii) a especialidade conferida por lei ao INPI para questões de transferência de tecnologia.] Franco, cited

68 As I describe in *A disciplina dos contratos de Transferência de Tecnologia* (2007): "Thus, declaring any clause as abusive, the INPI must offer two alternatives to the contractor who requested registration: change it or submit its claim to the antitrust authority." Contrary to such opinion, see Vaz e Dias, José Carlos, *Os princípios da legalidade e da competência e os limites de atuação do INPI no direito da concorrência*, Revista do IBRAC – Direito da Concorrência, Consumo e Comércio Internacional | vol. 5 | p. 13 | Jan / 1998 | DTR\2011\4905. This particular issue was not heretofore subject to direct judicial review, but just mentioned in obiter dicta in Case No. 2006.51.01.511670-0 of the 2nd. Chamber of the Federal Court of the 2nd. Region, as referred below.

letter, which is a part of the certificate, in which it is mentioned the negative impacts to the receiving party and the adverse competition of specific clauses. (...)

INPI just inquire into the reasons for including the clause, and if they are not withdrawn, *advises* to the potential adverse effects on competition that it can generate, in the letter accompanying the Certificate of Annotation. The contents of the letter accompanying the certificate Annotation has the purpose to inform. The legal nature of the letter, in relation to this particular item, it is exactly this – informational<sup>69</sup>.

### *Screening of provisions deemed otherwise not in conformity with law*

INPI practice is to refuse registration of contracts, therefore frustrating the special effects sought by the submitting parties, on those occasions that it understands that the text under screening does not support the recognition of the request as compatible with the law in force. In certain cases, INPI provides for extensive standards of analysis<sup>70</sup>.

INPI practice also applies a number of standards fairly consistent in the time, which the agency understands as expressing the law in force<sup>71</sup>. In this aspect as in every other pertaining to the application of the Brazilian law, INPI is subject to full judicial review<sup>72</sup>.

### *Effects of registration*

Lack of registration does *not* render the executed agreements null and void, but merely makes them ineffectual as to the *specific* consequences above listed.

As important economic results flow from the registration, even though such IPR and non-IPR contracts are valid and fully enforceable between the parties *without any registration*, whenever direct payments are contemplated, the contracts are usually submitted to INPI for registration<sup>73</sup>.

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69 [Após 1996 e sob a égide do Ato Normativo 135/97, o INPI continuou a fazer considerações de cunho concorrencial quanto a algumas cláusulas do contrato de transferência de tecnologia fornecido para registro. Na realidade, a mudança que se observa é que ao invés de condicionar o registro do contrato à exclusão da respectiva cláusula, a autarquia passou a emitir o Certificado de Averbação acompanhado de carta, parte integrante do Certificado, no qual alertava para os efeitos negativos para a parte receptora e efeitos adversos para a concorrência das cláusulas específicas. (...) Do ponto de vista da legislação concorrencial, pode-se afirmar que desde o Ato Normativo 120/93482 o INPI limita-se a inquirir sobre os motivos de inclusão da cláusula e, em não sendo retirada, atenta para potenciais efeitos nocivos à concorrência que ela pode gerar, na carta que acompanha o Certificado de Averbação. O conteúdo da carta que acompanha o Certificado de Averbação tem o condão de informar. A natureza jurídica da carta, em relação a esse item específico, é exatamente este – informacional", Franco, cited.

70 For instance, for assignment of trademarks, as may be found at the Trademark Examination Guidelines of Dec. 17, 2010, Chapter 7, found at [http://www.inpi.gov.br/images/stories/downloads/pdf/diretrizes\\_de\\_analise\\_de\\_marcas\\_17-12-2010.pdf](http://www.inpi.gov.br/images/stories/downloads/pdf/diretrizes_de_analise_de_marcas_17-12-2010.pdf), visited March, 30, 2012.

71 A number of practices followed by INPI under what it deems to be the applicable standards of law may be read at ABPI, Ata da Reunião Conjunta Da Comissão De Transferência De Tecnologia e Franchising, May 10, 2000. As to the stability of such standards throughout the time, see Fundação Casa De Rui, Barbosa, Transferência de Tecnologia, Jurisprudência Judicial e Administrativa (1981).

72 See below the two cases decided by the 2nd. Chamber of the Federal Court of the 2nd. Region, on such issue.

73 "Interpreting is the legislation that regulates the activities of the INPI as to the registration, we conclude that the interest in producing effects on third parties to the contracting parties resides in the tax and foreign exchange contracts

## *Even without registration contracts are valid and enforceable*

It follows from the above that registration with the INPI is not mandatory. As a legal instrument, the contract exists imposing the *pacta sunt servanda* to the parties that submitted to its obligations, irrespective of the further requirement of the registration:

"The registration of the license agreement at INPI has as its purpose the production of [legal] effects in face of third parties (Art. 62 of Law No. 9279/96). A contrario sensu, the INPI asserts that the license will have effect between the parties, be it registered or not." Federal Court of the 2nd Region, 3rd Chamber, Des. Tania Heine, AMS 1998.51.01.017418-8, 30/09/2003. <sup>74</sup>

"The license agreement for use of a trademark shall have effect between the parties, even though not registered [by the INPI], since registration is required in the public interest, to guard the rights of any third party (...)." Federal Court of the 2nd Region, Case: 91.02.00537-9 RJ, Full Bench, 05.12.1994, des. Carreira Alvim.<sup>75</sup>

"Therefore, although the contract of assignment of rights with the plaintiffs has not been brought to registration with the INPI, this situation does not have the power to invalidate the agreement concluded between the parties. Also is irrelevant that the contract should be entered in the INPI, since such an act is not required for its legal validity under the law of obligations. " Court of the State of Minas Gerais, Process 2.0000.00.436788-0/000 (1), Rapporteur: Camilo Elias, Date of judgment: Aug. 19, 2004.<sup>76</sup>

If a party does not proceed with the registration, it may not invoke its lack of diligence to evade its obligations:

"The appellant did not comply with the contractual clauses which imposed respect to the contract concluded between the appellant and Carbrasmar, even after enforcing the purchase option, and it shall not credibly invoke the lack of registration to evade obligations regularly assumed, pursuant to art. 140, § 2 of Law 9.279/96." Court of the

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that will produce and regulation in terms of industrial and technological policy. It is unusual to have to register a contract for its payment clause to be valid with the tax authorities and foreign exchange. Therefore, unlike the registration of documents under the Law 6.015/73, which is optional, the registration of technology transfer agreement with INPI is actually required for onerous contracts.} [Interpretando-se a legislação que regula a atuação do INPI quando do registro, conclui-se que o interesse na produção de efeitos perante terceiros para as partes contratuais reside nos efeitos fiscais e cambiais que o contrato passará a produzir e na regulação em termos de política industrial e tecnológica. Não é usual que se tenha que registrar um contrato para que sua cláusula de pagamento seja válida perante as autoridades fiscais e cambiais. Portanto, diferentemente do registro de documentos sob a Lei 6.015/73, facultativo, o registro do contrato de transferência de tecnologia no INPI é, na realidade, obrigatório para contratos onerosos.] Franco, cited.

74 "A averbação do contrato de licença no INPI visa produção de efeitos em relação a terceiros (art. 62 da Lei nº 9279/96). A contrario sensu afirma, efetivamente, o INPI que entre as partes fará efeito averbado ou não. Pretendendo a autora negociar a patente em questão, necessita evidentemente dessa averbação". Tribunal Regional Federal da 2ª Região, 3ª Turma, Des. Tânia Heine, AMS 1998.51.01.017418-8, Julgado 30.09.2003.

75 "O contrato de licença de uso de marca, relativamente as partes, produz efeitos, ainda que não averbado, pois a averbação se impõe no interesse público, para resguardo de eventuais direitos de terceiros (...)" TRF2, EIAC - Embargos Infringentes na Apelação Cível - Processo: 91.02.00537-9 UF : RJ Orgão Julgador: Plenário, 12/05/1994, Des. Carreira Alvim.

76 "Portanto, conquanto o contrato de cessão de direitos celebrado com os autores não tenha sido levado a registro junto ao INPI, tal situação, não tem o condão de invalidar o pacto celebrado entre as partes. Também irrelevante que o contrato devia ser inscrito no INPI, uma vez que tal ato não é requisito para sua validade jurídica no âmbito do direito das obrigações." TJMG, Processo 2.0000.00.436788-0/000(1), Relator: Elias Camilo, Julgamento 19/08/2004.

On the other hand, the effects sought *against third parties* (including the Tax, exchange and foreign investment control authorities) shall depend upon registration:

"The license agreement for use of a trademark, to be effective against third parties must be registered with the INPI. Therefore it does not offend Article 140, § 2 of Law 9.279/96, the decision granting the injunction in case search and seizure action, brought by the licensee, whose contract is duly registered against the former user of the trademark, not recorded. (...) As to Article 140, § 2, of Law 9.279/96, my feeling is that the contested decision is not worth repairing. The fact is that the legislation requires the registration of the license agreement for the exploitation of the trademark and the INPI action is necessary to make it valid against third parties. "STJ, Resp 606 443, Third Chamber of the Superior Court of Justice, Minister Castro Filho, February 5, 2004.<sup>78</sup>

"It is therefore a simple transfer of ownership that, notwithstanding being in force between the parties from the moment of its execution by the signature and legalization of the proper document, shall prevail against third parties after its registration by the INPI." TRF4, AC 02470143.2005.404.7100/RS, 3rd Class of the Federal Court of the 4th Region, unanimously, Des. Maria Lúcia Luz Leiria, January 25, 2011.<sup>79</sup>

"Reason assists the learned chairman of the proceedings, given that the absence of registration with the INPI does not preclude the validity of the assignment contract, in first place because, as stated by the defendant, there is already a request for registration with the INPI, that just did not materialize until this moment in the face of bureaucratic procedures that are inherent thereto, and in second place because the appealed party has exercised all the rights that were attributed to the contract of sale, and thus holding the utmost interest to preserve its brand". Court of Justice of the State of Ceará, 2nd Civil Chamber, Des. Maria Nogueira, AC 34199-33.2005.8.06.0001/1, Judged on 21/01/2009.<sup>80</sup>

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77 "A agravante não observou as cláusulas contratuais que impunham respeito ao contrato celebrado entre os agravados e a Carbrasmar, mesmo após a opção pela compra, não sendo crível invocar a falta de registro para se esquivar de obrigação regularmente assumida, nos termos do art. 140, §2º da Lei 9.279/96". Tribunal de Justiça do Estado do Rio de Janeiro, 9ª Câmara Cível, Des. Roberto de Abreu e Silva, AI 2005.002.24956, Julgado em 10.11.2009.

78 "O contrato de licença para uso de marca, para valer contra terceiros, precisa estar registrado no INPI. Assim, não ofende o artigo 140, § 2º, da lei n.º. 9.279/96, a decisão que defere liminar em autos de ação de busca e apreensão, proposta pelo licenciado, cujo contrato está devidamente registrado, contra o antigo usuário da marca, que não o registrou. (...) Quanto ao artigo 140, § 2º, da Lei 9.279/96, ao meu sentir, a decisão recorrida não merece reparo. O fato é que a legislação determina a averbação do contrato de licença para a exploração de marca no INPI e a providência é indispensável para torná-lo válido perante terceiros." STJ, Resp 606.443, Terceira Turma do Superior Tribunal de Justiça, Ministro Castro Filho, 05 de fevereiro de 2004.

79 "Trata-se, portanto, de simples transferência de propriedade que a despeito de viger entre as partes, desde o momento de sua efetivação pela assinatura e legalização do documento hábil, prevalecerá contra terceiros após a sua averbação pelo INPI. TRF4, AC 02470143.2005.404.7100/RS, 3ª Turma do Tribunal Regional Federal da 4ª Região, por unanimidade, Des. Maria Lúcia Luz Leiria, 25 de janeiro de 2011.

80 Razão assiste ao douto dirigente do processo, sendo certo que a ausência de averbação no INPI não afasta a validade do contrato de cessão, a um porque, conforme afirma o recorrido, já existe pedido de averbação junto ao INPI, que só não se concretizou até o momento em face dos trâmites burocráticos que lhe são inerentes, e a dois porque o apelado já exerce todos os direitos que lhe foram atribuídos no contrato de cessão, sendo, dessa forma, de seu maior interesse a preservação da sua marca" Tribunal de Justiça do Estado do Ceará, 2ª Câmara Cível, Des. Maria Nogueira, AC 34199-33.2005.8.06.0001/1, Julgado em 21.01.2009

"Trademark. Transfer of ownership. The recording and publication of the transfer of ownership of the trademark with the INPI is intended to affect third parties. The appealed party was already aware of the transfer through extrajudicial notification addressed to it. The publication was anyway performed. Procedure for the nullity of the trademark registration or its sale of it does not prevent the assignee of the same to promote their defense. "Court of the State of Rio de Janeiro, 17th Civil Chamber, Des. Fabricio Son Flag, AI 2005.002.19142, Judged on 10/05/2005.<sup>81</sup>

"The appellant DM Pharmaceuticals Ltd has not established its title as the holder of the mark Atroveran MM as well stated the Judge a quo:" ... even if the author DM Pharmaceuticals Ltd. has requested the INPI (National Institute of Industrial Property) the transfer of the trademark Atroveran, the transfer the ownership of the mark has not been evidenced, and as the registration of the mark to third parties only takes effect from the date of its publication, the plaintiff lacks standing to appear in the active pole of the dispute, and the suit should be dismissed without prejudice, based on Article 267, VI of the Code of Civil Procedure ... ". Court of the State of Minas Gerais, 16th Civil Chamber, Des. Amancio Jose, CA 2.0000 .00.485199-4, DJ 16.02.2007.<sup>82</sup>

"Under the law 9279/96, art. 136, it is up to the INPI to proceed with the notation in the case of assignment and transfer, and from the moment that the parties agree the contract by a formal act, the transmission is consolidated. Still and pursuant to art. 137 of the Law, "the notation shall have effect against third parties from the date of its publication". In this case, it is observed that in 1997 was drafted a document of assignment and transfer, filed with the INPI on June 11, 1997. Therefore, from this circumstance, the property of the trademark no longer belonged to the plaintiff, from what is evident he lacks standing. Still, with regard to art. 137, as emphasized in the trial court decision, "the fact is that the *erga omnes* effect of absolute relationship established between the holder and the property is negative, ie, must be raised as a defense by a third party, who believes to be harmed, not by the assignee of the right, who resigned, with the assignment, from any legal power to invoke protection over what no longer it has as its own." AC 155.327-4/3-00, Fifth Chamber of Private Law of the Court of the State of São Paulo, Des. AC Coltro Mathias, June 27, 2007.<sup>83</sup>

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81 "Marca. Cessão da titularidade. A anotação e publicação da transferência de titularidade da marca junto ao INPI destina-se a produzir efeitos perante terceiros. Agravante que já tinha ciência da transferência através de notificação extrajudicial que lhe foi dirigida. Publicação que, de qualquer forma, foi realizada. Procedimento de nulidade do registro da marca ou da sua cessão que não impede a cessionária da mesma de promover a sua defesa".Tribunal de Justiça do Estado do Rio de Janeiro, 17ª Câmara Cível, Des. Fabricio Bandeira Filho, AI 2005.002.19142, Julgado em 05.10.2005.

82 "A apelante DM Indústria Farmacêutica Ltda não comprovou sua titularidade como detentora da marca Atroveran como bem asseverou o M.M Juiz a quo: "...mesmo que a autora DM Indústria Farmacêutica Ltda tenha solicitado ao INPI (Instituto Nacional de Propriedade Industrial) a transferência da titularidade da marca Atroveran, não foi comprovado que a mesma tenha acontecido e, tendo em vista que o registro marcário só produz efeitos perante terceiros a partir da data de sua publicação, a autora carece de legitimidade para figurar no pólo ativo da lide, pelo que contra ela deve o feito ser extinto sem julgamento do mérito, com base no artigo 267,VI do Código de Processo Civil ...". Tribunal de Justiça do Estado de Minas Gerais, 16ª Câmara Cível, Des. José Amancio, AC 2.0000.00.485199-4, DJ 16.02.2007.

83 "Nos termos da lei 9279/96, art. 136, cabe ao INPI proceder a anotações nos casos de cessão e transferência e, a partir do instante em que as partes formalizam o contrato, mediante ato formal, a transmissão se consolida. Ainda e nos termos do art. 137 da mesma lei, "As anotações produzirão efeitos em relação a terceiros a partir da data de sua publicação" No presente caso, observa-se que em 1997 foi elaborado documento de cessão e transferência, com protocolo no INPI em 11.06.1997. Portanto, a partir de tal circunstância, tem-se que a propriedade da marca não mais pertencia à autora, motivo pelo qual a ilegitimidade ativa é evidente. Ainda e no tocante ao art. 137, como salientado na sentença "o fato é que o efeito erga omnes da relação absoluta estabelecida entre o titular e a propriedade é negativo, vale dizer, deve ser oposto em sentido contrário por terceiro que se julgue prejudicado, não pelo cessionário do direito, que se demitiu, com a cessão, de qualquer poder jurídico para invocar proteção sobre o que não mais possui". TJSP. AC 155.327-4/3-00, Quinta Câmara de Direito Privado do Tribunal de Justiça do Estado de São Paulo,Des. A. C. Mathias Coltro, 27 de junho de 2007

## *The tax and remittance effects are contingent to the registration terms*

For exactly the same reasons, the tax and remittance effects of the registration by the INPI stay applicable under the statute in force:

“The INPI in examining contracts that are submitted for recordal or registration, has the power and is mandated to assess the conditions under which they were signed, as this the mission entrusted to the agency by its empowering law, Law No. 5648, of December 11, 1970. The target set for the INPI is, ultimately, to assure the effectiveness of the standards of industrial property, but without losing sight of the social, economic, legal and technical role intended for them and always considering the desirable development of the country. 2. Law No. 9.279/1996 only withdrew from the INPI, by repealing paragraph of art. 2 of Law no. 5.648/70, the judgment of convenience and opportunity of the contract, i.e. the power to define which technologies would be most appropriate to the economic development of the country. This judgment now is solely of the Contracting Parties. There remains, however, the power to deny restrictive business practices, especially those involving payments in foreign currencies, against the need for remittance abroad, working in that respect, at least as a delegated agent of the tax authority. (...)

In my view, the new law only withdrew from the INPI, by repealing paragraph of art. 2 of Law no. 5.648/70, the judgment of convenience and opportunity of employment, i.e. the power to define which technologies would be most appropriate to the economic development of the country. This judgment now is solely of the Contracting Parties. There remains, however, the power to repress abusive clauses, especially those involving payments in foreign currencies, against the need for remittance abroad, working in that respect, at least as a delegated agent of the tax authority.

In this sense has also manifested Denis Borges Barbosa, word for word:

"It is my understanding, however, that since such practices are followed with reasonableness and consistency, the INPI, by inducing the conformation of the license agreements and technology to certain legal requirements, just fulfill its constitutional and statutory provisions. After it was revoked its discretion to veto or induce technology-based industrial policy action, the INPI still holds, as we shall see, vast powers, both of its own and delegated, and a specific purpose in their actions, in fact mentioned by Normative Act 137/97. "

It is noteworthy that is the registration or is recordal with the INPI that allows and enables the remittance of foreign currency values provided in the contract, which makes it an essential act and required to be authorized by the Central Bank.

Therefore, as the INPI is entitled to interfere in terms of technology transfer, before recording or registering it, we must consider whether, in this case, whether the evaluation was preceded adequately by the agency." (Federal Court of the 2nd Region, Appeal in Writ of Mandamus No. 2006.51.01.511670-0, Second Specialized (in intellectual Property) Chamber, Rapporteur: Judge Liliane Roriz, judged on Oct. .10, 2008, Official Gazette Oct. 31, 2008, p. 164 .)<sup>84</sup>. [Essentially the same grounds were

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84 “PROPRIEDADE INDUSTRIAL. CONTRATO DE TRANSFERÊNCIA DE TECNOLOGIA. USO DE MARCA. AVERBAÇÃO. INPI. REMESSA DE ROYALTIES. EMPRESAS COM VÍNCULO ACIONÁRIO. LIMITAÇÃO. 1. A atuação do INPI, ao examinar os contratos que lhe são submetidos para averbação ou registro, pode e deve avaliar as condições na qual os mesmos se firmaram, em virtude da missão que lhe foi confiada por sua lei de criação, a Lei nº 5.648, de 11/12/1970. A meta fixada para o INPI é, em última análise, a de dar efetivação às normas de propriedade industrial, mas sem perder de vista a função social, econômica, jurídica e técnica das mesmas e considerando

utilized for the Appeal in Writ of Mandamus 2006.51.01.504157-8, 2nd Specialized Panel of the Federal Court of the 2nd Region, by majority, Des. Liliane Roriz, June 4, 2008; the dissenting vote of this case was rendered as majority vote in the case related immediately below]

The same consideration - that the INPI has as its role enforcing through the registration the tax, exchange and foreign investment effects sought by the contracting parties, and to render effective the contract towards third parties in accordance with the laws in force - is echoed by the same court in a more recent decision. Both decisions stress that the agency shall not exert industrial policy, by meddling into whatever the parties agreed:

"INDUSTRIAL PROPERTY. TECHNOLOGY TRANSFER AGREEMENT. USAGE OF TRADE. Registration. INPI. REMITTANCE OF ROYALTY. BUSINESS RELATIONSHIP WITH INTEREST. LIMITATION. 1. However, the empowerment of the INPI to proceed with the recordal of contracts involving transfer of patents, trademarks and transfer technology, provided by the laws of Industrial Property (Law No. 9.276/96), remittance of dividends abroad (Law No. 4.506/64)[Note of the Law is in fact 4131/61] and the Income Tax (Law No. 4.506/64 and Decree No. 3.000/99) has its scope: (1) render [the contract] effective against third parties, without prejudice to the effects already produced inter-parties since the signing, (2) to remit payment to the exterior by way of royalties, and (3) permit the deductibility tax amounts remitted abroad. II - A reading of these laws, and others that deal with economic activities in the country, does not allow any understanding that limits values or percentages to be agreed by the parties as part of

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sempre o desejável desenvolvimento econômico do país. 2. A Lei nº 9.279/1996 somente retirou do INPI, ao revogar o parágrafo único do art. 2º da Lei n. 5.648/70, o juízo de conveniência e oportunidade da contratação, ou seja, o poder de definir quais as tecnologias seriam as mais adequadas ao desenvolvimento econômico do País. Esse juízo, agora, é unicamente das partes contratantes. Persiste, todavia, o poder de reprimir cláusulas abusivas, especialmente as que envolvam pagamentos em moedas estrangeiras, ante a necessidade de remessa de valores ao exterior, funcionando, nesse aspecto, no mínimo como agente delegado da autoridade fiscal. 3. Com o advento da Lei nº 8383/91, passou-se a admitir as remessas entre empresas subsidiária e matriz no exterior, com as conseqüentes deduções, desde que observados os limites percentuais na Portaria 436/58 do Ministério da Fazenda, em seu item I, que trata dos royalties pelo uso de patentes de invenção, processos e fórmulas de fabricação, despesas de assistência técnica, científica, administrativa ou semelhante (mínimo de 1% e máximo de 5%). Ocorre que a mesma Portaria, em seu item II, atinente aos royalties pelo uso de marcas de indústria e comércio, ou nome comercial, em qualquer tipo de produção ou atividade, dispõe um percentual de remessa de 1%, quando o uso da marca ou nome não seja decorrente da utilização de patente, processo ou fórmula e fabricação. Em outras palavras, a legislação veda a imposição de onerosidade simultânea na celebração de contratos de licença de marcas e de contratos de transferência de tecnologia. 4. Apelação desprovida.

(...) A meu ver, a nova lei somente retirou do INPI, ao revogar o parágrafo único do art. 2º da Lei n. 5.648/70, o juízo de conveniência e oportunidade da contratação, ou seja, o poder de definir quais as tecnologias seriam as mais adequadas ao desenvolvimento econômico do País. Esse juízo, agora, é unicamente das partes contratantes. Persiste, todavia, o poder de reprimir cláusulas abusivas, especialmente as que envolvam pagamentos em moedas estrangeiras, ante a necessidade de remessa de valores ao exterior, funcionando, nesse aspecto, no mínimo como agente delegado da autoridade fiscal.

Nesse sentido também já se manifestou Denis Borges Barbosa, verbis:

“É meu entendimento, porém, que desde que tais práticas sejam seguidas com razoabilidade e coerência, o INPI, ao induzir a conformação dos contratos de licença e de tecnologia a determinadas exigências legais, não faz senão cumprir suas determinações legais e constitucionais. Cassado seu poder discricionário de vetar ou induzir tecnologia com base em ação de política industrial, o INPI detém ainda, como se verá, vastos poderes próprios e delegados, e um fim específico de sua atuação, mencionado aliás pelo Ato Normativo 137/97.”

Destaque-se que é a averbação ou o registro no INPI que possibilita e viabiliza a remessa de valores em moeda estrangeira prevista no contrato, constituindo-se em ato essencial e obrigatório para ser autorizada pelo Banco Central.

Visto, pois, que tem o INPI legitimidade para imiscuir-se nos termos do contrato de transferência de tecnologia, antes de averbá-lo ou de registrá-lo, cabe analisar se, in casu, a avaliação foi bem procedida pelo órgão.” (TRF 2ª Região, Apelação em mandado de segurança, Processo nº. 2006.51.01.511670-0, Segunda Turma Especializada, Relatora: Desembargadora Liliane Roriz, julgado em 21.10.2008, DJU 31.10.2008, p. 164).

its industrial and production, indicating that the economic policies of the country after the advent of the 1988 Constitution, have all been directed to strive for free enterprise and competitive markets, with a wide opening to foreign capital since the years 90'. III – Therefore, according the current legislative framework, the INPI is not allowed, in its sole discretion, to meddle into the merits of private negotiations, to impose conditions, in its sole discretion, using the percentage devised for other purposes - tax deduction - resulting, as I feel is an invincible error in applying the law. First, for lack of power for [such] interference. Second, for lack of a rule or a public policy directed to such price delimitation. Three, because it is an act of pure speculation given the absolute lack of technical knowledge of the agency of the practices of market prices and its effects on production, when there is, as you know, [other] federal entities specially equipped for this purpose. And four - because under the aegis of a state of law and free enterprise it does not fit the state apparatus to intervene where the parties do not feel impaired, failing to replace the rule of law, for material assistance.

(...). To give support to what I say above, I cite Denis Borges Barbosa's doctrine on the subject, drawn from his study of License Agreements and Technology - the intervention of the INPI:

It seems reasonable to conclude, as does Luis Leonardos, that the Law force withdrew the INPI the power to intervene in contracts, as to its convenience and opportunity, as part of the power attributed to the agency prior to regulate the transfer of technology to the country: This policy came to culminate in the new Industrial Property Law (Law 9279 of 05.14.96), valid from 05/15/97, and that deleting the sole paragraph of art. 2 of Law 5.648/70, eliminated the functions of the INPI, to regulate the transfer of technology."

Writ of Mandamus AMS 71138 case 2007.51.01.800906-6. Second Specialized Chamber of the Federal Court of the Second Region, by majority, Des. Messod Azulay Neto, April 28, 2009 <sup>85</sup>.

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85 "PROPRIEDADE INDUSTRIAL. CONTRATO DE TRANSFERÊNCIA DE TECNOLOGIA. USO DE MARCA. AVERBAÇÃO. INPI. REMESSA DE ROYALTIES. EMPRESAS COM VÍNCULO ACIONÁRIO. LIMITAÇÃO. 1. Ora, a atribuição do INPI para averbar contratos que envolvam cessão de patentes, marcas e transferência de tecnologia, prevista nas leis de Propriedade Industrial (Lei nº 9.276/96), de remessa de dividendos para o exterior (Lei nº 4.506/64) e do Imposto de Renda (Lei nº 4.506/64 e Dec. nº 3.000/99), tem por escopo: (1) conferir eficácia contra terceiros, sem prejuízo dos efeitos já produzidos inter-partes, desde a assinatura; (2) permitir a remessa de pagamento para o exterior, a título de royalties; e (3) permitir a dedutibilidade fiscal de valores remetidos para o exterior. II - Da leitura dessas leis, e das demais que versam sobre as atividades econômicas no país, não se extrai nenhum dispositivo que delimite valores ou percentuais a serem praticados pelas partes, no âmbito de seus interesses industriais e produtivos, denotando que as diretrizes econômicas do país, após o advento da constituição de 1988, têm sido todas no sentido de primar pela livre iniciativa e concorrência de mercados, com ampla abertura ao capital estrangeiro, a partir da década de 90. III - De modo que, diante do quadro legislativo vigente, não pode o INPI, a seu exclusivo critério, adentrar o mérito de negociações privadas, para impor condições, a seu exclusivo critério, valendo-se de percentual engendrado para outros fins - de dedutibilidade fiscal - resultando, ao meu sentir, em erro invencível na aplicação da lei. A uma, por inexistência de atribuição para tal ingerência. A duas, por inexistência de norma ou política pública de delimitação de preços. A três, por se tratar de ato de pura especulação, dada a absoluta falta de conhecimento técnico da Autarquia das políticas de preços de mercado e seus reflexos na produção, existindo, como se sabe, entes federativos especialmente aparelhados para tal fim. E a quatro - porque sob a égide de um estado de direito e da livre iniciativa não cabe ao aparelho do estado intervir onde as partes não se sentem prejudicadas, sob pena de substituir-se o império da lei, pelo do assistencialismo. (...) Abalizando todo o exposto, trago doutrina de Denis Borges Barbosa acerca da matéria, extraída de seu estudo Contratos de licença e de Tecnologia - a intervenção do INPI: Parece-nos razoável concluir, como faz Luis Leonardos, que a Lei vigente retirou do INPI o poder de intervenção nos contratos, quanto à sua conveniência e oportunidade, como parte do poder antes atribuído à Autarquia de regular a transferência de tecnologia para o país: Esta orientação veio a culminar com a nova Lei de Propriedade Industrial (Lei 9.279, de 14/05/96), vigente a partir de 15.05.97, e que suprimindo o parágrafo único, do art. 2º da Lei 5.648/70, eliminou das atribuições do INPI, a de regular a transferência de tecnologia." TRF2, AMS 71138 2007.51.01.800906-6, Segunda Turma Especializada do Tribunal Regional Federal da Segunda Região, por maioria, Des.Messod Azulay Neto, 28 de abril de 2009.

*INPI registration does not change the agreement as executed between the parties*

As it can be noted, such court decisions (which are the only relevant to the issue) quotes my position in this context as applicable to the case in point.

That is to say that an INPI registration has no legal power whatsoever to modify the contract as executed between the parties. In case the contract does not fit the Brazilian Law for any reason, the agency is obliged to refuse the registration, but no further. As stressed by both court decisions, the INPI is not entitled anymore to request changes in the contract on account of Federal industrial policy. Preserving in its entirety everything agreed between the parties, the registration may confer either *full* or *limited* effects to said agreement.

In those cases where the parties agreed to values not conforming with the tax laws, the registration will not prevent the paying party to comply with its obligations imposed within the privity of contract, but exposing to the Income Tax as unallowable expense all amounts in excess of the values listed in the certificate of registration. As stressed by the second decision, “*the INPI is not allowed, in its sole discretion, to meddle into the merits of private negotiations, to impose conditions, in its sole discretion, using the percentage devised for other purposes - tax deduction?*”.

In case the contract provides for payments in excess of the values allowed to be remitted abroad according the exchange and foreign investment laws, which historically were never affected by any discretionary *industrial* policy, the paying party is not prevented or pardoned from carrying the payment as allowed by Brazilian Law, locally and domestic currency, or as otherwise permitted by law. As asserts the second decision, “*under the aegis of a state of law and free enterprise it does not fit the state apparatus to intervene where the parties do not feel impaired, failing to replace the rule of law*”<sup>86</sup>.

Obviously, whenever the INPI just asserts the rule of law, without exerting any discretionary power to enforce industrial policy, it is absolutely powerless to change the obligations already entered between the parties under private law. Therefore, the presence or absence of those effects, or the very existence of the registration, does not affect the consequences issuing *between the parties* from the contract itself. See again the statement, already cited, of the same Federal Court:

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86 In those cases where remittance in foreign currency is not allowable as royalties or contract fees, but the utilities were actually provided by the supplier of technology or holder of the IPR, and taken profit by the local party, indemnification or compensation for the unjust enrichment may be entertained in the court system. Within the legal standards applicable, which are not necessarily the same which would result from the INPI registration, the proceeds from an eventual favorable court decision are remittable in foreign currency.

“The license agreement for use of a trademark shall have effect between the parties, even though not registered [by the INPI], since registration is required in the public interest, to guard the rights of any third party (...).” Federal Court of the 2nd Region, Case: 91.02.00537-9 RJ, Full Bench, 05.12.1994, des. Carreira Alvim.

Or of the state courts mentioned:

[the party] shall not credibly invoke the lack of registration to evade obligations regularly assumed, pursuant to art. 140, § 2 of Law 9.279/96. "Court of the State of Rio de Janeiro, 9th Civil Court, Des. Roberto de Abreu e Silva, AI 2005.002.24956, Judged on 10/11/2009.

### ***The Private sector feeling about the INPI role in screening contracts***

The role assigned to INPI is screening contracts was essentially patterned from the correspondent Japanese procedure in force since the early 50's to middle 90's<sup>87</sup>. An important influence of the similar procedure carried out by the Andean countries may be also indicated<sup>88</sup>. Further to that, the tax and exchange control purposes of the screening, as mentioned above, has a different, but related purpose.

INPI was created by Law 5648 of Dec. 15, 1970 as an autonomous agency, as direct successor of various Governmental entities in charge of the Industrial Property-related activities rendered in Brazil since 1809.

According to the original wording of art. 2<sup>nd</sup> of its instituting law, INPI was held to be empowered to apply *industrial policy* standards to the contracts submitted to its review. Federal Supreme Court decision RE-95382/RJ,

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87 YAMANE, Hiroko, Competition Analyses of Licensing Agreements: Japan's Developmental Perspectives and Micromanagement of Licensee Protection. Document submitted to the UNCTAD (Division on Investment and Enterprise) on September 3, 2012. See BARBOSA, Denis Borges, Tecnologia e Poder Econômico, Published at Revista Brasileira de Tecnologia do CNPq, 1984: " The relative success in creating these specific mechanisms to control the accumulation of a foreign economic power, along with the failure to crackdown on domestic abuse, have an extremely significant example in the Japanese case. Such as Brazil, Japan has built up a tradition based on non-competitive behavior, but without the characteristics of a state capitalism. The monumental accumulation of economic power of the Japanese conglomerate family (zeibatsen) was so contrary to American sensibility that one of the first acts of the administration Mac Arthur was the dissolution of the trusts and cartels, which, however, regained much of their power after withdrawal of the army of occupation, even in the presence of a glass of strict antitrust laws. Thus, as in Latin America, [antitrust] legislation was practically innocuous in the domestic economy. But for the regulation of foreign capital and the market power of international corporations, the laws on the subject were widely used by the [Japanese] state. The treatment of Japanese technology contracts, as well as Latin American laws that allow such adjustments, has a different meaning from what was established by the American and European practice. Not only restrict actions affecting the legal rights of others, but also to the accumulation of economic power by transnational companies".

88 BARBOSA, Denis Borges, Atos Internacionais Relativos À Propriedade Industrial, Revista de Direito Nuclear, 1980; "This type of technology trade between independent enterprises sometimes takes a form anomalous, but remains, finally, a segment of trading technology whose goal is really the technology. On this you have to pay two prices: the explicit price (usually calculated as a percentage of production) and on the other hand, an implicit price. The implicit price of technology is what results from the restriction that the [technology] importer suffers in its potential market or development capability. For example: as a condition of buying technology, the importer undertakes not to export their products. Or, the importer is obliged to maintain a Technical Director appointed by exporting the technology, which will receive and store any information transferred; at the end of the contract, the director goes away. By 1960, it can be noted the creation of some Government entities meant to control the implicit price, at which point begins the internationalization of regulation of technology transfer. Such concerted action in this international level really starts to occur with the Cartagena Agreement, the Andean Pact. Is this a defensive sense of Economic Pact, which establishes certain standards by which foreign capital can enter the countries of the Agreement, and certain standards by which the implicit prices will be controlled."

decided Aug. 05, 1983 recognized the full Constitutional empowerment of the agency to (a) impose the mandatory content of the contracts subject to its review for the purposes of obtaining better conditions in the transfer of technology *to the country*, irrespective of the private interests of the parties<sup>89</sup> (b) to request changes in the provisions agreed between the parties to the extent *reasonably* deemed to advance such purposes.

Furthermore, under the same provision, INPI had as a practice to deny registration of contracts whenever *alternative domestic sources* of technology could be available or could be developed:

The policy sensibly conducted by the INPI at the time (...) was a nationalist discourse, favorable to State intervention, [promoting] development by means of import substitution, and the actual implementation of public policies of the INPI followed this set of criteria. For example, as to the importation of technology, from 1979 onwards, for each technology contract, the INPI called on the local industry, both industrial companies and consulting companies in the specific trade to decide whether or not there was a domestic alternative. There was a replacement policy. A very clear one. Closely linked to interests of the consulting and engineering industries. And so if there was possibility of drawing up the basic engineering contract for an existing technology or [to obtain] the technology from some other company than the source from the party wanted to import the technology, the registration was denied. That is, INPI denied access to the hard currency needed to pay [the importation].<sup>90</sup>

This role was *revoked* with the enactment of the 1996 Industrial Property Law, as notes the citation made to me at Appeal of Writ of Mandamus AMS 71138 case 2007.51.01.800906-6:

“that the Law in force withdrew the INPI the power to intervene in contracts, as to its convenience and opportunity, as part of the power attributed to the agency prior to regulate the transfer of technology to the country: This policy came to culminate in the new Industrial Property Law (Law 9279 of 05.14.96), valid from 05/15/97, and that deleting the sole paragraph of art. 2 of Law 5.648/70, eliminated the functions of the INPI, to regulate the transfer of technology.”

As stated before, the *only* relevant legal change introduced to the powers of INPI since its inception was the exclusion of those discretionary powers as

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89 "What to the plaintiff company looks great and real contribution, as know-how, - from the perspective particular individual, that arises, and without prejudice to the honesty of his purposes - the country may not actually feel the same, under the examination of a complex reality as much broader general problem in life". "o que à empresa pleiteante parece excelente e real contribuição, em know-how, ao País – sob a ótica especial, individual, em que se coloca, e sem prejuízo da honestidade de seus propósitos – pode, na verdade, não o representar, no exame complexo de uma realidade muito mais ampla, na vida geral do problema” Justice Oscar Dias Correa Vote at RTJ 106/1057-1066.

90 “A política sensível no INPI à época – nós não tínhamos ainda o Ministério da Ciência e Tecnologia; o INPI era e hoje ainda é parte do Ministério da Indústria e Comércio – era de um discurso nacionalista, estatista, desenvolvimento ao gênero de substituição de importações, e a própria implementação das políticas públicas do INPI seguia esse conjunto de critérios. Por exemplo, na importação da tecnologia, a partir exatamente de 79 (setenta e nove), para cada contrato de tecnologia, o INPI convocava a indústria local, as empresas industriais, e as empresas do ramo de consultoria para decidir se havia ou não alternativa nacional. Uma política de substituição de processo. Clara. Muito vinculada às situações de classe de empresas de consultoria e de engenharia. E assim se houvesse possibilidade de elaboração do contrato de engenharia básica de uma tecnologia já existente ou se alguma outra empresa que não a que queria importar, a tecnologia se denegava à importação e tecnologia. Vale dizer, se denegava a moeda forte e necessária para pagá-la.” Found at <http://www.denisbarbosa.addr.com/arquivos/novidades/anos80.pdf>.

described above. The remaining powers inherent to its role as a specialized registrar remains untouched, as well as those roles related to give certain tax and exchange effects to the registration sought by parties submitting a contract.

This screening was all the time resisted by the private corporations subject to such Governmental action. By 1990, the INPI itself renounced to carry on the strict interventionist role, what was confirmed by the change of the Industrial Property law of 1996. Even today, private corporations resist the remaining powers assured to the agency. Some authors indicate that INPI stays applying policies that were unwarranted by such supervening legislation<sup>91</sup>.

INPI's role as we described herein was not extensively disputed by the courts, but for the three cases mentioned. I stress that even in those cases the discussion refers substantially to the *tax and remittance* aspects of the contracts at stake. The actions carried out by INPI and subject to judicial review have as its *only* matter of review the amounts intended to be remitted and deductible as expenses:

"This is an appeal against the sentence that dismissed the claim, denying the Mandamus, aimed at the exclusion of the Certificate of Registration of Agreement entered into between the plaintiff, now appellant, and the record company NOVODISC BRAZIL LTDA. - Now called NOVODISC DIGITAL MEDIA LTD. - Limitations on the remittance of royalties, so he could remit in full the amount stated in the contract (...) Case 2006.51.01.504157-8.

"This is an appeal against a judgment dismissing the safety, aimed at the correction of certificates of registration of contracts of technology transfer 050431 and 050430 with respect to the remuneration agreed between the parties, allowing plaintiffs the immediate remittance of royalties provided in the contract and render the resulting percentage deductible for tax purposes." Case 2006.51.01.511670-0

"KONINKLIJKE Philips Electronics NV has filed a Mandamus against two Acts of INPI, the argument that the power for registration of contracts does not enable the federal agency to change the amount of payment of royalties, freely agreed between the parties, by an absolute lack of legal authority." Case 2007.51.01.800906-6.

As can be read, notwithstanding the mentions to an alleged interventionist posture of INPI, what are in controversy under the mentioned cases is the *tax and remittance* effects of a registration. INPI, as a delegated agent of the tax and exchange authorities, has as its task to certify the amounts deemed justified to remit abroad and to be expendable as allowable deductions under Income Tax rules.

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91 VIEGAS, Juliana L. B., Contratos de Transferência de Tecnologia sob o Regime da Nova Lei de Propriedade Industrial, Revista da ABPI, (34): 24-31, mai.-jun. 1998. VIEGAS, in Santos, Manoel J. Pereira dos; Jabur, Wilson Pinheiro, Contratos de Propriedade Industrial e Novas Tecnologias - Propriedade Intelectual - Série Gvlaw, Editora: Saraiva.

The thrust of the case law at this moment goes to the sense that INPI is fully empowered to perform this *tax and remittance* review. I do not consider that these roles have any interventionist undertones. Therefore, even if the interventionist role of INPI be recognized as licit, such intervention shall be limited to *tax and remittance* aspects of the contracts and shall not embrace the mutual covenants agreed between the parties.

#### Patent Office role in standard-setting

We have seen that all payments related to license agreements to be paid abroad are subject to INPI analysis and approval. This includes FRAND licenses related to standards, even though eventually approved by the antitrust authority.

In one of the cases mentioned above<sup>92</sup>, a local licensee questioned the royalty levels charged for a standard, on account of changing market conditions and the fact that the pertinent Income Tax Regulations allowed deductibility only to certain quantitative levels. INPI reduced the agreed payments, which arguably it is empowered to do. As mentioned, the case is under appeal to Federal Superior Court.

On a specific case on the relations of novelty of patents and standards issued by SDO, the Federal Court of Rio de Janeiro has indicated that once a new standard is discussed before implementation, the pertinent technology enters into the state of art<sup>93</sup>.

#### **Local Antitrust Treatment of standards developed internationally or generated locally**

In a limited number of cases, standards developed on an International basis were brought to the screening of Brazilian Antitrust Authority (Cade). Even though such decisions would not express any public policy towards standard-setting and IP, they reflect the Brazilian legal environment regarding this issue.

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92 Writ of Mandamus AMS 71138 Case 2007.51.01.800906-6. Second Specialized Chamber of the Federal Court of the Second Region, by majority, Des. Messod Azulay Neto, April 28, 2009.

93 "As reivindicações formuladas no pedido da patente de invenção sub-judice já se encontravam disciplinadas através da norma da ABNT NBR 8865, de dezembro de 1996, ou seja, antes da data do depósito da patente, que ocorreu somente em 29/08/97. IV – Incabível a aplicação do artigo 12, da LPI, uma vez que o réu, por ocasião do depósito do pedido de patente, não realizou o requerimento de reivindicação de prioridade, o que se faz presumir que não tenha havido divulgação do objeto da patente antes do seu depósito no INPI, não tendo o mesmo comprovado, através de documentos, que terceiros teriam obtido informações sobre a patente direta ou indiretamente ou em decorrência de atos por ele realizados. V – Além disso, não obstante o método previsto na norma da ABNT NBR 8865 haver sido publicado somente em 30 de dezembro de 1996, observa-se que o seu projeto era de 17 de maio de 1996, ou seja, fora do período de graça, que seria de 29/08/96 a 29/08/97. " TRF2 , AC 416662, Processo: 200451015349930, Primeira Turma Especializada, Aluisio Goncalves de Castro Mendes. Decisão: 16/12/2008 DJ 04/02/2009 - Página:39

### ***The Brazilian competition structure***

The Brazilian System of Defence of the Competition (SBDC) is structured by Law 12,529, which entered into force on 29 May 2012 repealing provisions of Law 8.884/94. The main agency in charge of the competition screening is the Competition Administrative Court (CADE); prior to the recent statutory CADE was supported by an investigating unit within the Ministry of Justice (SDE) and an economic unit within the Ministry of Finance (SEAE).

According to the law, the acts which are liable to damage free competition or free enterprise, or may be an abuse of dominant position, may characterize a violation of the Economic Order. Among these acts are the concerted behaviour of economic agents, including private setting of standards and patent pools<sup>94</sup>.

#### ***Which criteria CADE should be expect to employ in assessing standards covered by patent pools***

Considering specifically the patent pools created as a means to manage an industry-generated standard that involves patents, the Brazilian authorities would probably consider the following aspects<sup>95</sup>.

- (a) The pools would be dealt as a means of market concentration.
- (b) Regarding the analysis of the barriers to entry:

CADE should check the terms established by the pool act as a barrier to entry for new licensees, for example, by charging high royalties and lack of alternative technologies due to standardization. Even in the case where the royalties charged by the pool does not pose a barrier to licensees outside the pool conducting business in downstream markets, the cumulative royalty rates (plus the royalties from other patent holders outside the pool) can become high enough to represent a significant barrier to entry in these markets. Standardization itself does not prevent that substitute or successor technological patterns emerge in the market; however, investment costs and other factors required to replace create a competitor pattern can function as high barriers to new entrants in the market for licensing of technology. Such barriers may be reinforced if there are patent thickets associated with the pooled technology. If the successor pattern has to be compatible with prior standards, this would likewise strengthen these barriers to entry, to the proportion that the interface technology is proprietary<sup>96</sup>.

- (c) As to the purpose of preventing collusion, CADE should:

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94 Conselho Administrativo de Defesa Econômica (CADE). *Averiguação Preliminar N.0812.001315/2007-21*, Representing parties: Gradiente Eletrônica S.A. and Cemaz Indústria Eletrônica da Amazônia S.A. Represented parties: Koninklijke Philips Electronics, N.V. and Philips do Brasil Ltda. Reporteur: Olavo Zago Chinaglia, May 13, 2009. (Gradiente case)

95 This analysis borrows extensively from the ongoing work of SILVA, Denise Freitas. *Pools de patentes: impactos no interesse público e interface com problemas de qualidade do sistema de patentes*. Doctoral thesis submitted to the Institute of Economics of the Federal University of Rio de Janeiro, as drafted at the moment of this paper. Although the analytical criteria proposed here is simply an academic exercise, it considers the pertinent Brazilian statutory structure and all CADE precedents in this context and may be therefore a fair anticipation of the future behavior of the Brazilian authorities.

96 SILVA, cit. Such barriers to entry were discussed in the Gradiente case (see below) by SEAE at Ministério da Justiça. Secretaria de Direito Econômico. *Averiguação Preliminar SDE/MJ no 0812.001315/2007-21*, on 26 set. 2008.

When licensors compete among themselves or with licensees in markets related to the technology covered by the pool, CADE should analyse whether the pool harms competition in the downstream market in other related markets. This includes an analysis regarding:

- a) Formation of a cartel or other arrangement to fix prices (outside the scope of licensing the patent portfolio of the pool), market division and / or restricting output
- b) Price fixing or price coordination, albeit tacitly,
- c) Division (albeit tacitly) of sales in an industry and / or
- d) Limitation (albeit tacitly) of production levels <sup>97</sup>.

(d) Concerning the anticompetitive flow of information within the pool members, CADE should

Check whether the rights of licensors as participants in the administration of the pool allow access to information confidential and sensitive to competition (such as data on costs) and if there is something in the contract that facilitates collusion between licensors <sup>98</sup>.

(e) CADE would consider in the assessment as to the reasonableness of royalties:

(i) by checking whether the royalty rates are a small fraction of the products' prices <sup>99</sup> and/or are small related to the to the total manufacture costs of the product <sup>100</sup>.

ii) In situations where licensors compete with licensees in downstream markets, competition may be frustrated by anticompetitive stance which is known as "rising costs of rivals", "price squeeze" or "margin squeeze". It is desirable that this stance is taken into account in the analysis of reasonableness of royalties<sup>101</sup>.

c) CADE should check for the presence of a ceiling on the increase in royalties during the renewal of the license agreement in order to avoid that licensees locked-in to the technology covered by the pool end by being crushed<sup>102</sup>.

e) As to the non-discrimination of royalties, CADE would probably assure that a RAND or FRAD pattern should be adopted<sup>103</sup>.

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97 SILVA, cit. Collusive acts are prohibited under Art. 36 § 3º, I and II of Law 12.529/11.

98 SILVA, cit. This consideration may be found in the ONE-Red case mentioned below, at SEAE, item 15.c and CADE, item 16.

99 According to SILVA, cit. , this consideration was included in section 3.9.1 of the Business Review Letter of the MPEG-2 standard (USDOJ,1997, item II-B-2).

100 SEAE/MF (2011, item 15.b).

101 According to SILVA, cit. this consideration was included SDE/MJ's opinion in Processo Administrativo 08012.008501/2007-91 Easytone Telecomunicações Ltda. et al. v. Americal S. A. et al.

102 SILVA, cit. remarks that in the Business Review Letter of the MPEG-2 pool, this limitation was fixed at the 25% level (USDOJ, 1997, p.12): "while the term "reasonable" is the Portfolio license's only limitation on the Licensors' ability to impose onerous non-royalty terms on licensees at renewal time, the 25% cap on royalty increases (...) appear to constrain the Licensors' ability to use royalties to exploit any locked-in installed base among its licensees?".

103 Therefore applying Art. 36, § 3º, X of Law 12.529/11. This consideration was included in the decision of the RED ONE case as reported by rapporteur: Carlos Emmanuel Joppert Ragazzo (see below).

(f) As to the issue of the inclusion of complementary or substitute patents in the pool, CADE should:

Assure that the pool includes only patents of complementary technologies. Cade also should assure that the mechanisms that aim to provide an independent analysis of essentiality of the interests of licensors to prevent substitute patents are included and maintained in the pool<sup>104</sup>.

(g) As to the issue of bundling<sup>105</sup> of unnecessary patents and expert screening required to prevent it, CADE should<sup>106</sup>:

a) Assure that the analysis of essentiality be made by an expert group rather than by an individual <sup>107</sup>.

b) Assure that expert have "full and sufficient knowledge and be well versed in the relevant technology."<sup>108</sup>

c) Verify whether the mechanisms aimed at ensuring that the experts act independently of the interests of licensees when assessing the essentiality of the pooled patents.

d) Check whether the license agreement contains an updated list of all patents that are licensed by the pool. In the context of a violation, the list should be held to contain all the patents deemed essential to the standard.

e) Check the presence of mechanisms to ensure that the essentiality of the patents included in the pool may be challenged, in order to avoid bundling of non-essential and essential patents. This can be better achieved if each candidate member of the pool provides a table in which it would associate, for each element of its (candidate) patent claims, the equivalent part(s) of the standard specification <sup>109</sup>. This table would be preferably open to the other members of the pool as well as to the public.

f) Verify whether the pool includes mechanisms to facilitate the entry of other holders of essential patents. The independence of the Expert is also important here so that licensors do not act in concert to exclude essential patents, whose holders request entrance to the pool.

g) If the hired independent experts are only able to assess the essentiality of patents in regard to only a few countries (such as the U.S. and Japan), CADE should check

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104 SILVA, cit.

105 Bundling or tying is covered by Art. 36, § 3o, XVIII of Law 12.529/11

106 The following recommendations are due to SILVA, Cit.

107 According to SILVA. Cit., citing the DVD6C case (USDOJ, 1999, p.4) the essentiality analysis would be performed by an expert panel, whereas in 3C DVD pool case, a main expert could hire other personnel to perform the analysis (USDOJ, 1998, p. 4).

108 According to SILVA, cit., this was required in Expert Agreement, 2.3 apud USDOJ (1999, p.4), of Business Review Letter in the DVD6C pool case.

109 By requesting admission to the pools of 3G technology, the prospective member must provide information to support his claim that his patent is essential to the standard. For this, he should list for each claim, which would be equivalent to elements covered by pool technology. This is done by filling in a table where for each element of the claim, the applicant cites excerpts from the standard specification. The company may also, if deemed necessary, for each element of the claim and the corresponding part of the technology, specify the reasons whereby the element of the claim is essential to technology or standard. The company can make reference to the drawings in the patent document to substantiate their arguments. Additionally, it can describe the deficiencies of the prior art have been solved by the patent.

for the presence of criteria for analysis in other countries in order to prevent foreign patents whose scope has suffered limitations on national patent examination in such a way that they cannot be further considered essential to the standard, from being inappropriately included in the pool. The table referenced in item "e" above would also facilitate the evaluation of this parameter

h) CADE should consider as a relevant factor whether the licensors are allowed to license their individual patents outside the pool <sup>110</sup>.

i) CADE should refuse any unbalanced grant-back provisions<sup>111</sup> or other disincentive to innovation and in this context:

- 1) Check whether the presence of grant-back clauses is restricted only to essential patents and subject to the RAND requirement when compared to other essential patents included in the pool.
- 2) Assure that there are no restrictions so that the licensees can use competing technologies, technologies of competitive products in development or even participate in development of competing standards <sup>112</sup>.
- 3) Verify whether incentives and R & D levels were maintained after the establishment of the pool or if there are hidden or implied restrictions for R & D<sup>113</sup>.

j) Finally CADE should consider whether the industry-generated standard as timely disclosed so that launching of new standardized products by members only occurs after the standard has been disclosed<sup>114</sup>.

In the Brazilian competition system, the evaluation of a joint action among economic players, which potentially affect competition, is subject to a rule of reason analysis<sup>115</sup>. We must consider here, therefore, which factors should be beneficial and which would be weight against the acceptability of an industry-generated standard protected through a patent pool.

The beneficial aspects to be considered by CADE would probably be the following<sup>116</sup>:

- a) The pool offers a unique package licensing of patents essential to the standard, preferably by a fixed royalty per product, reducing transaction costs.
- b) The pool integrates complementary technologies and promote interoperability between products manufactured.

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110 SILVA, cit.

111 The Industrial Property Law prohibits the inclusion of a grant back provision in any license agreement, except in fair and equitable conditions.

112 According to SILVA, Cit., this consideration is in EEAS, 2011, item 24.b and USDOJ, 1997, p. 6-7.

113 SILVA, cit., remarks that "as a public policy requirement it would be desirable that the pool's rule for distribution of royalties is not only a function of the quantity of patents held by the company in order to avoid creating an incentive for companies to file patents with low technical contributions and to attract to the pool members whose patents are of greater value to the technology". Although that recommendation would possibly be included in any innovation policy filter, it would not be necessarily under the purview of an antitrust authority.

114 SILVA, cit.

115 Law, Art 88 § 6, II.

116 This section also follows to some extent the analysis of SILVA, cit.

c) The pool reduces barriers to entry, contributing to competition in the relevant markets.

b) The arrangement has allowed for some level of cooperation with public research institutions or accepted some degree of government regulation, to the extent needed to protect the public interest<sup>117</sup>.

On the other hand, the following items would be undesirable as they contribute to the risk of anticompetitive results of the industry-generated standards:

a) The Standard Setting arrangement has not allowed for the negotiation of royalties that would be collected in each of the alternative techniques candidate to be established as a standard in order to avoid hold up problems<sup>118</sup>.

b) The standard setting arrangement has not ensured that all relevant patents are included in the pool, so to prevent infringement concerns or unreasonable royalties from non-participating players, what would withdraw or diminish the pro-competitive effects of the pooling of patents <sup>119</sup>.

### ***The patent pool cases analysed by the Brazilian Antitrust Authorities***

Up to this moment, the Brazilian Antitrust Authorities have screened three patent pool relevant cases. The pertinent content of the precedents were mentioned above.

#### ***The Videolar case***

Videolar was a licensee in the CD-R pool. In 2007 it filed an antitrust claim before SDE (the investigating authority) alleging that Phillips was abusing its dominant position by (a) eliminating all competing media formats in Brazil and (b) charging abusive prices in the license agreement<sup>120</sup>.

Plaintiff alleged that Phillips allowed for low price, unlicensed imports just to eliminate the then competing VHS format; and that the fixed price per item (US 0.045) was discriminatory as distinct from the royalties charged in other countries.

SDE found that (a) the relevant market was the world market, (b) the VHS supply was disappearing on account of technology change and not through any manoeuvring by Phillips; and royalties were non-discriminatory.

Therefore, the claim was dismissed.

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117 Whereas the Brazilian antitrust authority would be probably just concerned with the competitive effects of such cooperation or submission to regulatory patterns in the relevant market, even broader than the Brazilian one, an innovation public policy, if set, would further consider that cooperation with and regulation by Brazilian entities would be most desirable. Art. 218 and 219 of the Constitution requires that Government favors local development of technologies, and this stress on domestic innovation is incorporated in all relevant legislation. See BARBOSA, D.B. et alii, *Direito da Inovação*, cit., p. 26-45. Therefore, competition and innovation policies may be distinct in this context.

118 SILVA, cit., quoting USDOJ e FTC (2007, p. 52).

119 SILVA, cit.

120 SDE Procedimento Administrativo no. 0912.005181/2006-37.

### *The Gradiente Case*

The second case was the 3C DVD pool, reviewed in the context of a claim by the Brazilian firm Gradiente (Gradiente case):

In 2007, Gradient and CCE filed a representation against Philips and its Brazilian subsidiary. Plaintiffs accused Philips of offending the Economic Order in two vertically

related markets: (a) the market of technology for production of DVD devices and (b) the market of DVD devices. The alleged anticompetitive acts were (a) inclusion of non-essential patents for the production of DVD devices (b) charging abusive prices for the licensing of their technologies (c) collecting royalties on duplicity.

In response, the SDE (Secretariat of Economic Law / Department of Justice) issued a technical note concluding that there was evidence of violations of the Economic Order and opening Preliminary Investigation. After proper investigations, SDE / MJ issued a second technical note which concluded by dismissal of the Preliminary Investigation in 2008. In the same vein, the Federal Prosecutor and Attorney CADE suggested the dismissal. The CCE and Gradient filed an appeal against this decision which was rejected by CADE in 2009<sup>121</sup>.

### *The One Red Case*

As result of the creation of a common subsidiary to manage the patent pool of Blue Ray and DVD technologies (One Red LLC), Sony Corporation, Koninklijke Philips Electronics N.V., Panasonic Corporation, Hitachi Consumer Electronics Co. Ltd., Samsung Electronics Co. Ltd. e Cyberlink Corp., submitted a concentration request to the Antitrust Administrative Court (CADE) in 2011.

The One Red corporate side of the case<sup>122</sup> was thus approved:

According to the submitting parties, the Red-One will only act as a service company for administration of certain patent licensing programs, exercising their activities in such Areas: (i) administration of certain pools of licensing programs of optical media, currently administered by Philips, on behalf of a group of patent holders including Sony, Pioneer, LG Electronics and Hewlett-Packard, called "3CDVD", (ii) administration of certain individual programs Philips licensing optical media and possibly also individual licensing programs Pioneer and / or Sony, and (iii) provision of services of patent pool for a new pool licensors of essential patents for the manufacture of products of Blu-ray called BD Pool.

Although the submitting parties act in some common markets, such as research and development of media technology (Vim or device manufacturing DVD and Blue-ray), the Red One shall operate only in providing services of patent pool-related of technology media Optics and hence the operation will not affect other markets in which the Plaintiffs conduct business.

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121 SILVA, cit.

122 Ato de Concentração 08012.000734/2011-22, rapporteur Olavo Chinaglia.

The submitting parties assure that Red One by laws shall be structured to prevent exercise of market power by any shareholders in the markets for final product that Pioneer, Sony and Philips are competitors, and that the position of those companies as shareholders shall not ensure them any special rights in the licensing programs managed by One-Red. One-Red shall also be limited by the rules established in the licensing programs 3DVD and BD Pool, and this required the licensing, without discrimination, of all stakeholders. Furthermore, patents licensing of BD set and program 3DVD shall not have exclusive character, i.e., the companies contributing with patents are free to set (in fact, are obliged to) license their patents on an individual and non-discriminatory manner.

13. Thus, the management activities in name of the licensing pool name 3DVD and of Philips, Red-One only replace Philips, which will cease to exert such activities. In the administration of the licensing of BD Pool, One-Red will only act outside the United States and Japan.

14. Also according to the information provided by applicants, there are many companies specializing in managing patent pools in the world, and other pools to be managed by one or more members. They also reported that there are no barriers to entry for companies wanting to start providing patent licensing services.

15. Thus, the operation will not generate horizontal overlap or horizontal integration in markets related to patent pools that will be managed by One-Red, and there will not be created any risks to competition.

#### VI. Conclusion

16. Based on the foregoing, I know of the operation, declare it timely and approve it without restrictions, taking as a basis, as applicable, Opinion No. 06366/2011/RJ COGCE / EEAS / MF.

In a further case<sup>123</sup>, the patent pool itself was also approved:

Concentration Act. Worldwide operation with effects in Brazil. Ordinary procedure. Constitution of a patent pool. Future acquisition of equity interest. Rights to intellectual property licensing in the electronics segment. Case under under Art. 54, 3, of Law n°. 8.884/94 - billing. Timely submission. Procedural fee collected. Electronics segment. Worldwide. Lack of horizontal concentration. Possible vertical integrations unverified. The EEAS / MF and SDE/M.1 recommend approval of the transaction without any restriction. No injury to the competitive environment. Approval without restrictions. Compliance with the recommendations of the [U.S] Antitrust Guidelines for the Licensing of Intellectual Property. Competition in the relevant markets maintained. Structure of the pool does not allow the exchange of competitively sensitive information. Beneficial effects of competition.

#### *The Tacographs case*

The Tacographs case, decided 18/8/2011<sup>124</sup>, in a sham litigation issue, dealt also with some aspects of standards. A series of judicial and administrative

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123 Conselho Administrativo de Defesa Econômica (CADE). Ato de Concentração no 08012.008810/2009-23, rapporteur: Carlos Emmanuel Joppert Ragazzo, 29 jun. 2011

124 CADE Process 08012.004484/2005-51. For literature on the case, see TEREPIINS, S., Sham litigation – uma exceção à doutrina Noerr Pennington e a experiência recente vivida pelo CADE, in Revista do Ibrac, vol. XV, nº 1, 2008, p.77 and TAVARES, Filipe Mascarenhas, Sham litigation: abuso do direito de ação. Atos de má-fé e sua vantagem indevida found at <http://jus.uol.com.br/revista/texto/18730/sham-litigation-abuso-do-direito-de-acao/2>, visited Feb, 2011. A separate

procedures concerning a local manufacturer was held by the instructing authority as to be apparently anticompetitive. Respondent, a multinational corporation, had 85% of the market for analogic equipment and the plaintiff before the Authority entered the market with a digital version of the product. Even after losing a writ of mandamus and a civil action on procedural basis, the Respondent continued to try to oppose the new entrant by a series of other procedures.

One of the grounds of the decision was “use of normative conflict between the National Transit Council - CONTRAN, and the National Institute of Metrology, Standardization and Industrial Quality - INMETRO, to propose actions requiring the judiciary, with a request of injunction, the suspension of Ordinances DENATRAN who had approved the electronic tachographs produced by the Representative”<sup>125</sup>.

As notes Fabíola Zanetti:

(...) a recent example was found in the case rendered by the Administrative Council for Economic Defense (CADE), involving the Siemens VDO and the Brazilian Corporation SEVA Engenharia Eletrônica. In the proceedings, it was shown that Siemens VDO had already conquered the market dominance of tachograph vehicle with models VDO1308 and VDO1318, years before the standardization of the product. Once it was established the technical standard of the product by the National Institute of Metrology, Standardization and Industrial Quality, now called the National Institute of Metrology, Quality and Technology (INMETRO), the technical specifications of the models were the same as VDO.

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issue of cartelization was also considered; BOUCINHAS FILHO, Jorge Cavalcanti and BARBAS, Leandro Moreira Valente, Sham Litigation - O Ajuizamento de Ações de Forma Abusiva e o Direito Concorrencial, Revista Magister de Direito Empresarial, Concorrencial e do Consumidor n° 32 - Abr/Maio de 2010. See also MORAIS, Rafael Pinho de, Defesa da concorrência e litigância predatória, <http://4mail.com.br/Artigo/ViewFenacon/00391500000000>, visited 8/12/2011.

125 The Summary of the decision of the instructing authority mentions a number of practices that are recognizable as vexatious/sham litigation, and indicated as such: “práticas tendentes à monopolização ilícita do mercado nacional de tacógrafos, principalmente o exercício abusivo de direito de ação (sham litigations) e o convite à formação de um cartel. A Representante alega que a Siemens estaria se utilizando de um suposto conflito normativo para propor ações judiciais e, assim, levantar barreiras artificiais à entrada e permanência da concorrente no mercado. (...) A Representada estaria abusando de posição dominante, com o objetivo de impedir a comercialização do tacógrafo eletrônico da Representante de três formas: a) Utilização de influência política no Congresso Nacional para obter a revogação das Portarias do Departamento Nacional de Trânsito - DENATRAN, que haviam homologado os tacógrafos modelo SV2001 e SVT-3000, ambos produzidos pela Representante; b) Utilização do conflito normativo existente entre o Conselho Nacional de Trânsito - CONTRAN, e o Instituto Nacional de Metrologia, Qualidade e Tecnologia - INMETRO, para propor ações no Judiciário requerendo, com pedido liminar, a suspensão das Portarias do DENATRAN que haviam homologado os tacógrafos eletrônicos produzidos pela Representante. c) Utilização de sua posição dominante para propor convite a cartelizar para que a Representante retirasse do mercado e direcionasse a venda de seu

produto para outros mercados. Segundo a Representante, o comportamento da Representada importaria infrações à ordem econômica previstas nos incisos I, II, III e IV do art. 20 da Lei 8.884/94, c/c o disposto no art. 21, inciso V.”

## Hold-up and transferability of obligations in standard setting

No specific policies are devised to deal with the hold-up issues<sup>126</sup> concerning standard-setting through pooling or other IP rights mechanisms.

However, at the academic level, there are some studies dealing with the issue of patent hold-up in setting standards<sup>127</sup>. Such studies indicate that hold-up is not just a private matter to relevant industry, but also an issue of public policy, as downstream consumers may be harmed when excessive royalties are passed on to them and consumers may be affected when innovation is delayed by hold-up.

Even though not provided by a specific Government policy, transferability of obligations imposed on the parties affected by standard-setting (for instance, a RAND licensing duty of equality) in case of sale or assignment of their IP rights may be naturally implemented in Brazil.

Under the Brazilian legal system, patents can only be sold or otherwise transferred to third parties by means of a specific action by the Patent and Trademark Office<sup>128</sup>. On the other hand, patent pools as a licensing agreement may be only effective towards third parties after record with the same agency<sup>129</sup>; any obligation resulting from such arrangement would automatically impose onto any buyer or assignee, *provided that the licensing agreement specifically states as to that transferability*<sup>130</sup>.

## A case study: when Brazil failed to set a 100% national standard

By 2006, a series of Federal measures were directed to developing a domestic standard for digital TV. This proposal was developed at the margin of Government SDO and ABNT procedures. Some decisional factors eventually led to subscribing to a non-domestic standard; however, the defective

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126 We refer here to the problem mentioned by SHAPIRO, C. FARREL, J. and Hayes, J. Standard Setting, Patents and Hold-Up. Theresa Sullivan Antitrust Law Journal. v. 74, 2007. Found at: <http://faculty.haas.berkeley.edu/shapiro/standards2007.pdf>. Visited March, 2012. As to the issue of transferability of obligations, we refer to Tools to Prevent Patent "Hold-Up", FTC meeting of June 21, 2011. 225, found at <http://www.ftc.gov/opp/workshops/standards/transcript.pdf>. Visited June 3, 2012.

127 Especially SILVA, cit. ZIBETTI, Fabíola Wüst, Relação entre normalização técnica e propriedade intelectual no ordenamento jurídico do comércio internacional, doctoral thesis submitted to the School of Law of the São Paulo University (USP), 2012, also has recently analyzed the interface between Intellectual Property and standard setting activities. This last author target a number of standard-setting problems: a) Patent (and other IPR) ambushes b) Overlapping of rights; c) Overvaluation and accumulation of royalties; d) Restrictions on terms and conditions; e) Refusal to license; f) Collusion with competitors; g) Concentration of rights within standardization organizations.

128 This issue was extensively analyzed in BARBOSA, D.B., Transferência de titularidade dos direitos da propriedade intelectual (April 2012), found at: <http://www.denisbarbosa.addr.com/arquivos/200/propriedade/transferencia.pdf>.

129 Idem.

130 This effect results from the subsidiary application of the provisions of the Civil Code related to leasing agreements. Section 576. If something is sold during the lease, the purchaser will not be required to comply with the contract, if it is not provided for its efficacy in the case of alienation, or it is not on the record.

planning of the IP considerations was a relevant item of putting aside the Brazilian alternative.

To this date, this is the only conspicuous case study to consider under the general purview of this research. Our analysis would take into consideration this issue.

#### As a need for a standard developed

As it is known, there are currently three digital broadcast standards available in the market: ATSC (U.S. Canada, Argentina, Taiwan and South Korea), DVB (Europe, Australia and New Zealand) and ISDB (Japan).

The Brazilian Government has started in 2003<sup>131</sup> the decisional process towards converting the analog to digital patterns of the terrestrial TV broadcast infrastructure; the initiative was denominated The Brazilian Digital Television System (SBTVD)<sup>132</sup>.

On July 2006<sup>133</sup>, the ISDB-T modulation was chosen as the reference transmission platform for the SBTVD system<sup>134</sup>. Our case, however, relates to the period from 2003 to 2006 when the choice of the standard was in process. Some aspects of this exercise are noted below.

#### *Social policies to be asserted*

Starting in 1998, the digital TV process turned into the decision taken that Brazil should adopt a Brazilian standard. The main factors for such decision were the public policy concerning social inclusion through TV and the development of national industry. Executive decree 4901 stated that digital TV would be a tool for social development; alongside the technological evolution centered in market interests<sup>135</sup>. Some authors indicate that this decree signaled a preference for the European standard<sup>136</sup>.

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131 Prior studies are reported in a specific 2001 Congressional report, found at [http://bd.camara.gov.br/bd/bitstream/handle/bdcamara/1316/implantacao\\_televisao\\_tavares.pdf?sequence=3](http://bd.camara.gov.br/bd/bitstream/handle/bdcamara/1316/implantacao_televisao_tavares.pdf?sequence=3), visited May 21, 2012.

132 Executive decree 4901, of November 26th 2003

133 Executive Decree 5820 of July 29, 2006.

134 "The main criteria adopted to select this modulation platform were robustness and flexibility. The ISDB-T modulation scheme also called BST COFDM (Band Segmented Transmission Coded OFDM) was developed to broadcast digital terrestrial TV with the use of flexible modulation. The 6MHz channel band is divided into 13 segments of 429 KHz widths each. In those 13 segments, it is possible to transmit simultaneous programs with different robustness and modulation techniques. A requirement from Brazilian broadcasters business model is to make possible the transmission, in the same channel, one HDTV signal in twelve segments with 64 QAM modulation for high quality fixed content and one LDTV (Low Definition TV) signal in one-segment with QPSK or 16-QAM modulation, for mobile applications." CARVALHO, E. et alii, The Brazilian Digital Television System Access Device Architecture, São Paulo University, found at [www.lbd.dec.ufmg.br/bdbcomp/servlet/Trabalho?id=5637](http://www.lbd.dec.ufmg.br/bdbcomp/servlet/Trabalho?id=5637). Visited May 21, 2012.

135 MONTEZ, Carlos; BECKER, Valdecir. TV Digital Interativa: Conceitos e Tecnologias. In: WebMídia e LA-Web 2004 – Joint Conference. Ribeirão Preto, SP, Oct 2004.

136 BAZANINI, Roberto, DONAIRE, Denis, DONATO, Maurício, Estratégias de posicionamento: as alianças e as negociações empregadas pelos agentes fomentadores no processo de implantação da TV digital no Brasil, Revista de Negócios, ISSN 1980-4431, Blumenau, v16, n.3, p.53 – 78, Julho/Setembro 2011.

An institutional complex was created to steer this project in order to assure that those public policy aims should be integrated into the standard-setting<sup>137</sup>.

A plurality of conflicting national interests was at play in this context. The broadcasting industry has its own agenda, the diffuse interest of civil society was voiced especially by the NGO Intervozes, and Telecom Industry had another agenda as had the Electro-electronic sector. Academy, which may to a certain extent be important whenever the need of specific technology is required, had its own interests. Finally, Government had changing alliances and moving purposes during the exercise<sup>138</sup>.

By 2003, the interplay is so described:

Somehow the decree 4901/03 would undermine the commercial interests of the owners of television media, a fact that led to strong disagreement with the interests that broadcasters had to keep its business model based on advertising. The decree favored a pulverization of the media, enabling, in this way, the inclusion of new players. Therefore, broadcasters came together to change this decree. They argued that the technology of the European standard (MPEG-2) was outdated and if Brazil would adopt this technology, it would not be favoring high-definition, since it did not include such a function, just using the 6MHz band as provided in the Executive decree.

For the electronics industry there was no interest that a proprietary model be chosen, Japanese, European or North American. They would become dependent on these technologies and would have a higher cost to produce it in Brazil.

In this scenario, the interests of the Academy were being favored, since the Government was encouraging the transfer of research funding - coming to an approximate amount of 60 million dollars. To the Academy that was the best period. At this time the Academy was interested in developing a 100% Brazilian technology thus could export the technology to Latin America<sup>139</sup>.

### *The “technology” argument won the day*

By 2006, a political change at the Ministry of Communications altered such interplay. By setting an alliance with the broadcasters, Government stressed as the crucial factors of choice some technological properties: the quality of sound and image and robustness of mobile TV (portability and mobility). Those aspects justified that other considerations, as the democratization of information, should be downsized.

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137 “For the management and execution of SBTVD were created three committees: Development Committee, Advisory Committee and Steering Group. At first, directly linked to the Presidency of the Republic, responsible for defining policies for system development, including technology development, transition, regulation and business model to be adopted. It is a political body, composed of the Ministers of State. The Advisory Committee is an extension of the Development Committee and is responsible for proposing actions and guidelines essential to the system. It consists of representatives of civil society, indicated by the entities that develop activities related to the theme. The Management Group is responsible for the actions determined by the two Committees, being supported by the Federal Research Financing Agency (FINEP) and the CPqD Foundation”. MONTEZ, BECKER, cit.

138 BAZANINI et alii, cit.

139 BAZANINI et alii, cit.

Therefore the new 2006 decree put aside the social policy considerations and the stated goals of a 100% Brazilian technology, and chose the Japanese standard. Other set of interests was predominant in this period:

The results of the research points out that the adoption of the Japanese standard was perfectly in keeping with the interests formed by the alliance of Broadcasters and the Federal Government, but in detriment of the interests of the Intervozes Civil Society group, the Telecom Industry and the Academy; for the Electrical-Electronic industry suffered no significant interference in its business model. (...)

The Academy, due to its subservience to government funds, maintained a dubious position: initially opposed to broadcasters and later in favor of same.<sup>140</sup>

### ***Technological development and the tropicalization of the Japanese standard***

The 100% Brazilian technology was not a unitary target. Other academic and Government players followed different pathways.

For instance, already by 2003, the Instituto Nacional de Telecomunicações (INATEL) started studies around ATSC standard and design equipment based on a FPGA (Field Programmable Gate Array), utilizing system logic in software and then synthesizing the pertinent hardware. The first commercial version of the ATSC transmitter was completed in December 2004 and opened the first transmissions of a trial were held in January 2005<sup>141</sup>. By 2005, the Japanese alternative appeared as most probable, and a new initiative provided for consortium of universities and research centers formed by INATEL, UNICAMP, UFSC and CEFET/PR<sup>142</sup>.

Once chosen the Japanese standard, Brazilian technology (specially the Catholic University of Rio de Janeiro and the Federal University of Bahia<sup>143</sup>) was called to complement and create a specific environment:

"Brazilian government adopted the Japanese Integrated Services Digital Broadcasting Terrestrial standard (ISDTV-T) and, as a consequence of innovative projects, this standard received improvements and it was called ISDTV-TB, adding "B" of Brazil (SBTVD, 2011). The Ginga middleware and access terminals are examples of good results. The Ginga middleware and access terminals are examples of good results (...). Before the definition of ISDTV-TB, there was the Ginga middleware development. Ginga is a layer of software that lies between the application code and the run-time infrastructure (hardware platform and operational system). It is free software. In this context, Brazilian government formed research consortia to explore the development

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140 BAZANINI et alii, cit.

141 MENDES, cit.

142 "In 2005, the federal government invested in the development a new proposal for the Brazilian Digital Television System, to produce significant gains with respect to the standards already on the market. A consortium of universities and research centers formed by INATEL, UNICAMP, UFSC and CEFET/PR was responsible to develop a proposal for the Modulation subsystem. The project MI-SBTVD (Modulation Innovative SBTVD) had as starting point the physical layer of the ISDB-T standard." MENDES, cit.

143 MENDES, Luciano Leonel, SBTVD – Uma visão sobre a tv digital no Brasil, found at [http://www.fucapi.br/tec/imagens/revistas/007\\_ed012\\_SBTVD\\_umaVisao\\_sobre\\_TVDigital\\_Brasil.pdf](http://www.fucapi.br/tec/imagens/revistas/007_ed012_SBTVD_umaVisao_sobre_TVDigital_Brasil.pdf). Visited May. 21, 2012.

new digital signals receiver for the Brazilian digital TV standard (AltaTV, 2011; SBTVD, 2011). The Thematic Network for Research on Access Terminal of Brazilian of Digital Television System, AltaTV consortium, focuses on developing a free, open and scalable digital TV access terminal according to SBTVD standard."<sup>144</sup>.

## Implications for US interests

We shall now answer some specific inquiries related to the subject of this study. Even though not limited to the direct implications of the Brazilian attitudes in standard-setting in face of related US interests, the following consideration shall focus on such perspective whenever pertinent.

This absence of policy attention paid to IP and transactions in IP and, if so, is that due somehow to the structure of the economy? Is it a strategy by private industry to slow down or prevent the emergence of such a policy?

a) Why are there so few SDOs that have an IP policy?

Considering the Brazilian environment, the issue is: why INMETRO and ABNT have not an IP policy.

At this stage of Brazilian development, there is no coherent and integrated IP policy either in Government or within the representative trade associations, which in Brazil are particularly important in interfacing with Government.

Initiatives like GIPI, the Interdepartmental IP steering group, have not as yet achieved a lead even less the control of IP matters. Even though the standard-setting interface with IP have been episodically raised at GIPI (especially on occasion of the Foreign Office reports of the Chinese actions within WTO) no decisions or recommendations were drawn to the moment.

The IP theme is however much more present within Brazilian society (industry, society or Government) than any time before. ABNT has already called for the participation of the antitrust authorities in some relevant standard-setting exercises. We think that it is quite likely that IP concerns may be formally introduced within ABNT protocols in the near future.

This report is unable to discern at present any strategy by private industry to slow down or prevent the emergence of such a policy.

b) Is it due to a shortage of innovation and production in the Brazilian ICT and other key industries?

Although innovation in transformative industry (as opposed to the agro industrial sectors) is not the most significant aspect of the Brazilian economy, Government investment in R&D and innovation have been growing on a significant rate. The institutional environment suffered an entire overhaul

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144 CARDOSO JUNIOR, Jarbas Lopes, BARBIN, Sílvia Ernesto, CARVALHO, Marcius Fabius Henriques de. The Network Perspective of Brazilian Digital TV Initiative, São Paulo University, found at [repositorio.cti.gov.br/.../244/1/1569377627.pdf](http://repositorio.cti.gov.br/.../244/1/1569377627.pdf). Visited May 21, 2012.

since 2006, after the Innovation Law was published, and this changing has not been interrupted since then.

The importance of Government expending in some areas as health and defense, has assured that direct demand may further accelerate the overall innovation rate in the private sector.

The case study introduced in this paper may help to illuminate this issue. The Brazilian standard for digital TV technology was not adopted just on account by unavailability of innovation potential<sup>145</sup> or industrial inability. As indicated, political considerations may be paramount in the choice of a non-Brazilian standard. But a lack of IP expertise may have contributed to some extent to such decision.

Before the 2006 decision, consortia of Government and academic research institutions were called to collaborate in the Brazilian Standard target. By December 2005, it was noted that joint research contracts did not provide for sharing of results among the institution and their researchers; a post hoc intervention would necessarily be questioned in court and therefore undermine the efficiency of the standard as a National choice. At that moment, the lack of a combined IP and standard-setting expertise was revealed to be a vital deficiency in Brazil capabilities<sup>146</sup>.

- c) Are there simply no difficult issues in licensing patented standardized technologies so the need to manage the problems has not come up?

The report on two cases brought by Brazilian corporations to the competition authorities challenging the licensing of International patented standardized technologies indicate that the present business methods (at least in the relevant sectors) are not working so smoothly for Brazilian economy.

On the other hand, the rather cavalier fashion that those claims and, generally, patented standardized technologies were dealt by CADE may signify that Brazilian sensibility for the issue was not as yet been called.

- d) Are there shortcomings in the law that has discouraged this emergence?

It does not seem that special statutory provisions were required up to this moment in other countries to allow for a more efficient interplay between IP and standard-setting concerns. Brazil has no legal provisions covering this issue, either discouraging or inducing such interplay.

- e) Are there ongoing discussions of which you are aware, in the public and/or private sector, to try to deal with these issues?

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145 The actual capacity of developing a 100% Brazilian standard was obviously questionable. But the Ginga middleware technology developed since the 2006 decision must be considered as an important index of technological potential in a specific area where Brazilian research has a comparative advantage.

146 This author, then acting as an IP and innovation consultant to the Ministry of Science and technology, was borrowed by the Ministry of Telecommunications for the purpose of reviewing this specific problem.

Brazilian Academy has started to consider the issue at stake, as the cited sources may indicate. On the other hand, the very request of this research may be instrumental to attract discussion on the matter.

### *Some final remarks*

This author is not able to find any specific aspect of the present Brazilian standard-setting procedure or the IP system that might directly impact on US interests in this context.

However, the different roles of Government and industry in Brazil and United States may eventually cause the future policies for conciliating IP and standard-setting appear to be less market-oriented and industry-generated.

In the digital TV case, telecom and electro-electronic industries had a quite constrained role; the fact that different public policy concerns (or perhaps, political considerations) had been at play when setting the standard may signify that Brazil has and shall be expected to have a different approach from US to the problem at stake.

These distinct strategies, rhetorical concerns put aside, do not imply that Brazil and US interest are or may become opposite.

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