

The Legal Framework for Trademark Licensing Agreements in Brazil

By Otavio Padilha Velasco

I. Introduction

The Brazilian legal system is rooted in Roman Civil Law. Legal rules are derived primarily from the Constitution, which is supplemented by more specific codes, laws, statutes, and administrative acts. Many pieces of legislation may touch trademark licensing relationships under Brazilian law—the Constitution, Civil Code, Industrial Property Law, Consumer Code, Taxation Code, Penal Code, treaties, etc. Given this complex legal framework, the purpose of this article is to provide basic procedural knowledge relevant to trademark licensing in Brazil.

II. The Role Played by the Brazilian Trademark Office

The Brazilian Constitution and Law 9,279/96 (IP Law) provide that a trademark is property granted by the State after a “first to file” system prosecution at the Brazilian Patent and Trademark Office (BPTO). The BPTO also assists the Brazilian Tax and Financial Authorities in order to avoid undue remittances abroad and to confirm that taxes are being correctly calculated and paid. The BPTO does not authorize the remittance of royalties if the licensed trademark is neither duly registered nor filed. Because Brazil has not yet adhered to the Madrid Protocol, the filing of trademarks still must take place in the BPTO in order to be protected in Brazil.

If a trademark is not used within five years from the date of registration, the registration may be attacked by third parties and may be cancelled due to lack of use. Once the trademark is duly registered, or at least pending, the trademark licensing agreement must be recorded at the BPTO for the following purposes:

1. To put third parties on notice. If the agreement is not recorded, parties will not have prima facie rights if enforcement is necessary. In practical terms, the chances of prevailing in a legal or administrative procedure against a third party are reduced by failure to record, particularly in cases involving parallel importation, since the infringer is not presumed to know of an unrecorded license agreement.
2. To enable payment of royalties abroad. Taking into account that IP rights are intangible, the BPTO cooperates with the Brazilian Tax and Financial Authorities to avoid undue payments abroad and to ensure that taxes are properly charged and paid.
3. To authorize the licensee to deduct from taxes amounts remitted. A portion of the royalties paid for the

license of trademarks can be deducted by the licensee from its income taxes as a business expense.

During the recording procedure, the BPTO usually also will analyze other matters. For example, if the licensor is a parent company with more than a fifty percent interest in the licensee, the remittance of royalties and resulting tax deduction are limited to one percent of the gross revenue derived from the licensee’s exploitation of the trademark. If the trademark is directly related to a patent or to technological know-how, the limitation may vary between one percent and five percent, depending on the field of business as provided for by Ministerial Ordinance 436/58.

On the other hand, if the licensee is not controlled by the licensor, remittance of royalties is unlimited as long as the amount agreed to by the parties is in accordance with the price commonly used in the particular market. The deduction, however, still will be limited by Ministerial Ordinance 436/58.

III. Recommended License Terms

Some basic clauses that should be contemplated in licensing agreements include:

- Grant of a trademark license. For recording purposes, the BPTO will require the number of the pending applications/registrations licensed.
- Right to assign/sublicense. If not expressly authorized, the trademark cannot be assigned nor sublicensed.
- Description of the activities to be performed by the licensee.
- Specification of the licensor’s obligations.
- Specification of the licensee’s obligations.
- Training; know-how; marketing; quality control.
- Remuneration, including advertising fees, minimum insurance, and rent of equipment or place of business.
- Territorial limitation/exclusivity.
- Period of contract and renewal.
- Licensee’s limitations on the use of trademarks and know-how and on the commercialization of products/services.

- Rules concerning termination of the contract; bankruptcy; jurisdiction over disputes; enforcement, and
- Status of the licensee after the expiration of the agreement regarding know-how/industrial secrets and competing activities in relation to the licensor.

IV. The New Civil Code: Principles of Good Faith and Social Purpose

The most important recent development in the New Civil Code (NCC) related to contract law has been the introduction of two principles developed by the local courts that govern the execution and efficacy of commercial agreements. These are the Principle of Good Faith and the Principle of the Social Purpose. The adoption of these principles in the NCC provides judges adjudicating disputes with a basis for thoroughly examining commercial agreements and reviewing clauses based on the need to satisfy the general interest of the parties implied in the agreement. This is new in Brazilian contract law, since under the prior Civil Code, mere compliance with written obligations would suffice to meet the purpose of agreement. The new law obliges the parties to adopt the duty of loyalty and good faith in relation to the other party.

The Principle of Good Faith, provided for by articles 113 and 442, is considered an implied covenant of commercial agreements. It is viewed as the duty of the contracting parties to cooperate with each other in order to advance specific interests in a manner that they could not if acting alone. There is, therefore, a general duty of collaboration and an expectation of loyalty on the part of the parties in the negotiation, execution, and termination of the agreement.

Indeed, considering that all agreements have a clear objective, it is reasonable to expect certain specific patterns of behavior from each of the parties that go beyond the "duty of no harm" or avoiding conduct calculated to seriously damage or destroy a relationship. This behavior is based on the obligation to collaborate (positively) and to take steps to reach the outlined objectives. It is expected that during the negotiation and operation of the agreement, the parties will take all steps necessary to prevent damage to any of the parties.

The Principle of Social Purpose, introduced in article 421 of the NCC, is conceptually related to the Principle of Good Faith. It derives from the concept of cooperation of the contracting parties to reach the economic goals set by the parties in the negotiation and execution of the agreement. Under this principle, in case of disputes, judges may modify some provisions of the agreement if it is shown that the terms and conditions of the agreement affect the balance of rights and obligations assumed by the parties, including fees that may financially overburden one of them.

V. Consumer Protection

Another important body of law for entrepreneurs interested in investing in the Brazilian market to be aware of is the Consumer Protection Code (*Código de Defesa do Consumidor* (CDC)), which is intended primarily to protect consumers against abuses and to assure harmony and transparency in consumer relations. As the Brazilian Labor Code (*Consolidação da Leis Trabalhistas* (CLT)) was implemented to stabilize relations between workers and their employers, the CDC is based on the premise that the consumer relation is unequal, favoring the product/service supplier.

Consumer protection is a principle of economic order established in article 170, item VI of the Brazilian Constitution, reflecting the proposition that the relationship between the supplier and the purchaser is essential in a "consumption society" for the competitiveness of the companies and the development of the Brazilian capitalist system based on the well-being of individuals and the maxim of justice.

A. Adhesion contracts

Aiming to prevent abusive contracts, article 51 of the CDC contains several provisions intended to protect the consumer. For example, the supplier cannot (i) transfer its legal responsibilities to third parties; (ii) invert the burden of proof in a lawsuit; (iii) unilaterally change prices; or (iv) unilaterally terminate an agreement without vesting the consumer with the same right.

The CDC also provides that the clauses of this type of contract must be written in a clear and comprehensible manner. Any provisions that restrict any right held by the consumer must be drafted so as to emphasize the restriction, thus allowing for easy and immediate comprehension.

Further, article 423 of the NCC provides that any ambiguous and conflicting clauses established in the adhesion agreements shall be construed in favor of the consumer, confirming the provisions established in Section III of the CDC.

B. Statutory warranty

Another important aspect of Brazilian consumer protection law is the difference between a contractual warranty and a statutory warranty. While the former is the warranty set forth in the contract (i.e., voluntarily provided by the supplier), the latter is established by law and belongs to the consumer irrespective of any other covenant. Under the statutory warranty, the purchaser is entitled to the repair or exchange of the product purchased or, in the case of a service, to have the service redone. The period established in the CDC to exercise such rights is 90 days in the case of durable goods and 30 days in the case of non-durable goods. Any contractual provision establishing a shorter period shall be deemed void.

C. Liability *strictu sensu*

Brazilian consumer protection law adopted the liability *strictu sensu* principle relating to indemnification for the damages caused by or derived from consumer relations. This means that irrespective of fault, the supplier must repair the damage caused to the consumer by the supplier or by the products or services provided. In practical terms, the consumer may make a damages claim against any of the companies engaged in placing the product or service in the market (manufacturer, distributor, seller—all defined in the CDC as suppliers). The company that bears the loss caused to the consumer is entitled to proceed in court against the other suppliers that jointly were responsible for causing the damage.

Liability *strictu sensu* excludes liability where the entrepreneur's products or services did not cause damage to the consumer, namely: (i) upon proof that the entrepreneur's company did not participate in the placement of the product/service in the market; (ii) despite having placed the product/service in the market, upon proof

that no defect exists; (iii) upon proof that the defect was caused exclusively by the consumer. These rules reflect the premise that the supplier must assume risks inherent to its business and, thus, in no cases other than these three may liability for indemnification be excluded. These are rules of public order and, as such, must be complied with by foreign companies that are engaged in activities within Brazil.

VI. Conclusion

This brief overview of aspects of Brazilian commercial law should help U.S. lawyers to better understand the legal parameters bearing upon trademark licensing agreements in Brazil and to assist clients seeking to enter the Brazilian market.

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