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AVANZANDO: Bridge to the Future of Latin American Business

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AVANZANDO: Bridge to the Future of Latin American Business

IP Rights in the Cross-Border Landscape

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The Business of IP Licensing

- Introduction
 - The value of technology
 - IP rights are an increasing portion of enterprise value
 - Today, over 80% of corporate market value is composed of intangible assets (led by intellectual property)
 - Patent filings continue to increase
 - Outsourcing R&D is a growing trend
 - Industry is looking to stretch budgets
 - Strategic collaborations provide a means by which to have a partner shoulder significant costs


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Key Points in a License

- Three Most Important Things
 - What are we getting?
 - What are we giving?
 - How do we get out of this?

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What Are We Getting? What Are We Giving?

- Patent and technology rights or right to exploit trademark or trade secrets
- Money
- Access to skills/research
- Access to trade secrets
- Access to sales/distribution

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What You Are Getting/Giving: International Considerations

- Is there registered IP protection in a foreign country?
 - Is there patent protection?
 - Have priority dates passed?
 - Is the trademark registered?
 - Consider a foreign language trademark filing as well
 - What protection is afforded to “trade secrets” or “know how”?

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What You Are Getting/Giving: International Considerations - Argentina

- Transfer of Technology
 - Main objectives:
 - Foster transfer of technology to local companies;
 - Provide information as to the flow of technology;
 - Development of local industries.
 - Argentine legal system favorable to licensing:
 - No specific form required
 - No prior governmental approval needed
 - Registration is not compulsory, advisable for tax benefits

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What You Are Getting/Giving: International Considerations - Argentina

- Transfer of Technology
 - Transfer of Technology Law 22,426 governs **onerous license** of technology and the license of **trademarks/patents** from foreign to local company
 - INPI Resol. 328/05 further restricted registration
 - Income Tax Law 20,628

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What You Are Getting/Giving: International Considerations - Argentina

- Transfer of Technology
 - Benefits of registration:
 - Reduce income tax withholding rate
 - To allow royalties' deductibility *(tax benefit for licensee)*
 - No effects as to enforceability
 - Related companies – Same treatment
 - Non-registered rights (including applications)
 - No limit for term of agreement
 - Renewal limitations

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What You Are Getting/Giving: International Considerations – Brazil

- Transfer of Technology
 - Objectives
 - Importation and internalization of the technology
 - Development and enhancement of the national industry
 - Qualification of the internal work force
 - Independence for the manufacturing and commercialization of products and the rendering of services
 - Acquisition of know-how
 - Increase in the internal production

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What You Are Getting/Giving: International Considerations – Brazil (cont.)

- Transfer of Technology (cont.)
 - Legal Framework
 - Law no. 9.279/96 (Industrial Property Law)
 - Art 211 – *The INPI will register agreements that imply the transfer of technology, franchise agreements and similar agreements to produce effects vis-à-vis third parties.*
 - Normative Ruling INPI 16/13
 - Ordinance 436/58
 - *Deductibility limits*
 - Law no. 4,131/62
 - *Regulates the remittance of funds abroad*
 - Registration before the INPI

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What You Are Getting/Giving: International Considerations – Brazil (cont.)

- Transfer of Technology (cont.)
 - Benefits of registration:
 - to allow remittance of fees abroad
 - to allow royalties' deductibility *(tax benefit for licensee)*
 - to allow enforceability vis-à-vis third parties
 - *(i.e. enforceable between the parties, but only before third parties upon registration)*
 - The INPI does not accept the concept of technology/know how licensing
 - Agreements must be registered before the INPI and the Central Bank of Brazil (BACEN)

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What You Are Getting/Giving: International Considerations – Brazil (cont.)

- **Transfer of Technology (cont.)**
 - Transfer of Technology Agreements
 - Non-patented technology / know-how not a property right (license not accepted)
 - Recipient may use the technology once the agreement expires
 - Agreements for 5 years renewable for additional 5 years
 - Limits apply to all agreements considered in a single transaction (i.e. TM and patent licenses and the technology transfer)
 - Spare parts and industrial consumption materials shall be excluded for the purposes of royalties' calculation

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What You Are Getting/Giving: International Considerations – Brazil (cont.)

- **Technical Assistance Agreements**
 - Technical services that imply the transfer of technology (i.e. engineering services)
 - Include a schedule for the rendering of services
 - (i.e. services description, man/hour or man/day fees, number of technicians involved, number of days for the services, technical qualification of professionals, total amount to be paid)

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Royalties

- Structure
 - No such thing as a “typical” or “customary” deal
 - Too many individual markets
 - Conditions change rapidly
 - Wide range of diversity in terms
 - Cross-licensing
 - Up-front royalties
 - Running royalties
 - Valuation
 - Graduated Royalties
 - Milestone Payments
 - Minimum Royalties

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Royalties: International Considerations

- Include appropriate protection in contracts
 - Currency considerations should be addressed
 - Provisions dealing with blocked currency
- Understand local registration/approval requirement relating to remitting royalty payment

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Royalties: International Considerations – Argentina

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- Current restrictions to access the FX market
 - Payment of services and licenses restricted by legal and *de facto* limitations

- Tax issues
 - Income tax withholding
 - General rate is 31.5%
 - May be reduced to 28, 21 or 10%.
 - Payment of foreign income tax allowed as a credit against payment of the tax

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Royalties: International Considerations – Brazil

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- Restrictions between related companies:
 - Ordinance 436/58 – limits tax deductibility between 1% - 5%, depending on the industry
 - For related entities (Brazilian wholly-owned subsidiary) the limits above are the same imposed on royalties' remittance
 - Between related companies, for TM licenses, remittance and tax deductibility limited to 1%
 - Calculation of royalties: based on net sales of products
 - For non-related companies, percentage over net sales or fixed fee per product sold

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Enforcement – United States

- Against infringers
 - Does the law authorize the licensee to enforce IP Rights?
 - Patents
 - An exclusive licensee *may* sue, but only if substantially all rights are transferred; otherwise patent owner needs to be joined, REGARDLESS of contractual right to sue
 - Trademarks
 - Non-exclusive licensees have no standing to sue; exclusive licensees may sue if sufficient property interest in mark

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Enforcement – Argentina

- Against infringers
 - Does the law authorize the licensee to enforce IP rights (if no provision in the agreement)?
 - Autonomy of the free-will
 - Patents
 - **Yes**, if patentee does not
 - Trademarks
 - **Yes** – legitimate interest
 - Copyrights
 - General principles - **No**
 - Licensor can contractually
 - retaining control of proceedings; and
 - Forbid the licensee from taking any action

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Enforcement – Argentina (cont.)

- Exclusive v. Non-exclusive licensee
 - Can IP owner simultaneously exploit IPR if it has an exclusive licensee?
 - Patents
 - Yes
 - Trademarks
 - No provision – Unclear
 - Include provision
 - Parallel imports valid (no infringement)
 - International exhaustion of IPRs

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Enforcement – Brazil

- Against infringers
 - Does the law authorize the licensee to enforce IP rights (if no provision in the agreement)?
 - Autonomy of the free-will
 - Licensor can contractually retain control of proceedings
- Product liability & Consumer Protection
 - Manufacturer, importer, distributor and seller jointly and severally liable for damages to consumers arising from defective goods.

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Tax Considerations – United States

- International intellectual property holding company
 - Compare tax benefits to potential enforcement issues
- Foreign tax withholding on royalty payments?
- Foreign tax reporting issues (to the extent that taxes are withheld must gather docs to qualify for foreign tax credit under US tax code)

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Tax Considerations – Argentina

- Registration advisable for tax benefits
 - Income tax law (31.5%), internal tax (VAT – 21%) and Stamp Tax
 - Offer letter and double taxation treaties
- Royalty of more than 5% likely challenged by INPI

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Tax Considerations – Brazil

- Registration required for tax benefits
- Applicable taxation (technology transfer - royalties)
 - Withholding Tax (15%)
 - Economic Intervention Contribution – CIDE (10%)
- Applicable taxation (technical assistance - compensation)
 - Withholding Tax (15%)
 - Economic Intervention Contribution – CIDE (10%)
 - Social Security and Social Integration Financing Contribution - PIS/COFINS (1,65% + 7,6%)
 - Service Tax (State) – ISS (5%)

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Invalid Clauses – United States

- Royalty payments beyond the beyond expiration of patent
- Covenants prohibiting challenges to patent's invalidity
- Liquidated damages accompanying no-challenge provisions
- *Ipsa Facto* termination upon bankruptcy
- Antitrust clauses
 - “Rule of Reason” Analysis

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Invalid Clauses – Argentina

- General
 - Full waivers of liability
 - Waivers for willful misconduct
 - Termination upon bankruptcy

- Antitrust considerations
 - Patents
 - Grant-backs
 - Exclusive grant-back
 - Tying arrangements
 - Clauses prohibiting challenging the validity of the patent
 - “Waiver not to sue”

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Invalid Clauses – Brazil

- Indefinite Term
- Full waivers of liability
- Waivers for willful misconduct
- Restriction for the subsequent use of the technology
- Payment provisions not in accordance with limits
- Grant-backs
- Exclusive grant-backs
- Tying arrangements

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How Do We Get Out Of It?

- When forming relationship/license, often little thought to ending relationship
- BEWARE: being locked into long term agreement that requires:
 - Payment
 - Tying up patent rights or exclusive trademark rights

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Dispute Resolution – United States

- Arbitration
 - Binding; allows for selection of expert arbitrators; confidential proceeding
 - Number of Arbitrators
 - Arbitration regime
 - Place of arbitration/Language
- Mediation
 - Meet and confer with mediator to find common ground; confidential proceeding
 - Not binding; may precede arbitration
- Provide for neither; go straight to court

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Dispute Resolution – United States (cont.)

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- Applicable law
 - Assess effects of governing law on enforceability of provisions
- Jurisdiction
 - Assess personal jurisdiction issues
- Venue
 - Matter of convenience

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Dispute Resolution – Argentina

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- Choice of law
 - Valid if:
 - it has sufficient contacts with the agreement or the parties
 - It is not contrary to the public order
- Choice of venue
 - Valid if there are sufficient contacts
- Arbitration
 - Available
 - Arbitration awards enforceable
- Choice of foreign courts or arbitration does not prevent the parties from *interim* remedies

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Dispute Resolution – Brazil

- Dispute resolution – judicial or arbitration
- Choice of Jurisdiction
 - Possible, but not binding (public interest)
- Choice of law
 - Possible, but Brazilian judiciary may be deemed competent (ordre public)
- Arbitration
 - Available
 - Arbitration awards enforceable
 - Law and venue can be chosen
- Choice of foreign courts or arbitration does not prevent the parties from interim remedies

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