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Consulting Services, Technology Transfer
and Licensing in Brazil

Background

Given the complexity of government regulations and the protectionism affecting not only the sale of Canadian products but also services and technology, the Embassy has prepared the following report based on interviews with the relevant government agencies and consultants. The report is not exhaustive because of the many variations from the rule of thumb. The major focus of the report is on consulting services and technology transfer which are the two areas most frequently enquired about.

This report will show that Brazilian regulations in these areas are complex and will require carefully drafted proposals. The intent of the controls is to (a) ensure that the country obtains the full benefit of foreign technology and services; (b) that the technology and services can be used to fullest advantage following the transfer; (c) to afford some protection for a national capability when this has been developed; (d) to control the flow of

CONSULTING SERVICES, TECHNOLOGY TRANSFER

AND

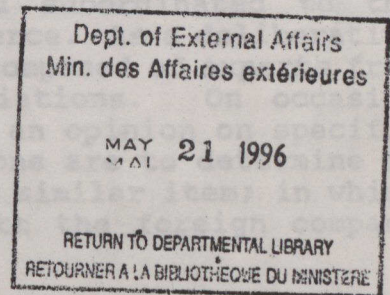
LICENSING IN BRAZIL

With regard to consulting services and technology, the key player is the INPI (National Institute for Industrial Property) which must approve all contracts of this nature for which payment is to be affected in foreign currency.

The INPI is a government Board established by the Ministry of Industrial Development and Commerce. Its composition varies, usually being composed of INPI staff, plus members of trade associations. Individual companies are called to provide information on their cases. The main thrust of INPI deliberations is whether the local company produces or can produce a similar item; in which case authorization for the transaction will be denied.

Canadian Embassy
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This report will show that Brazilian regulations in these areas are complex and will require carefully drafted proposals. The intent of the controls is to (a) ensure that the country obtains the full benefit of foreign technology and services; (b) that the technology and services can be used to fullest advantage following the transfer; (c) to afford some protection for a national capability when this has been developed; (d) to control the flow of foreign currency out of the country.

INPI

With regard to the sale of both services and technology, the key player is the INPI (National Institute for Industrial Property) which must approve all contracts of this nature for which payment is to be affected in foreign currency.

The INPI is a government Board subordinated to the Ministry of Industrial Development and Commerce. As a deliberative body its composition varies, usually being composed of experts from INPI staff, plus members of trade associations. On occasion individual companies are called to provide an opinion on specific cases. The main thrust of INPI deliberations are to determine if any local company produces or can produce a similar item; in which case authorization for the transaction with the foreign company will be denied.

INPI does not publish in its official bulletin or elsewhere, the nature of any official action which it issues on such agreements. The content of official actions are only made available to the Brazilian recipient or licensee by letters signed by INPI officials. In view of this policy it is difficult to anticipate how INPI will react to the wording of certain standard clauses.

Official actions taken by INPI disclose the fact that certain agreements which conform broadly to the existing guidelines, are nevertheless subject to close scrutiny and diverse interpretation by INPI examiners, and as a result of this, the parties to the agreements have been required to amend or delete certain provisions in order to conform to other laws and regulations, not specifically related to technology transfer and industrial property legislation. Some official actions also show that, while apparently complying with the required guidelines, the parties were requested to submit further information or explanations to enable the examining board to evaluate what is considered as basic data for approval of agreements. In other instances it can be shown that the interpretation of national similar can be very narrow and thus facilitating the arguments for technology transfer.

The selection of a Brazilian partner who is familiar with the INPI regulations is a key step in obtaining quick approval of proposals.

When a company submits its applications for the purpose of contracting foreign technology, it must justify the need for the foreign technology, the choice of the supplier on the basis of a technical and economic study comparing the foreign technology and supplier with other available technologies and suppliers according to a survey to be made at the patents bank of the Technological Documentation and Information Center of the INPI.

Remittances of funds abroad for the payment of transference of technology, consulting services, trademark licensing, etc, are the responsibility of the Central Bank of Brazil. Registration with the Central Bank of the contract duly approved by INPI is necessary in order to receive authorization for remittances abroad.

Any further information regarding matters treated in this paper can be obtained directly from INPI's headquarters at the following address:

Instituto Nacional da Propriedade Industrial - INPI
Praça Maua 7 - 11 andar
20.081 Rio de Janeiro - RJ
Brazil
Tel: (021) 253-8282
Telex: (021) 22992

Normally the whole process of examination, approval and registration of contracts at INPI may take from one to twelve months. However, with the help of specialized attorneys such as those listed at the end of this work, the time length of the process can be reduced considerably.

Overview about the market and perspectives

Present trends show that Brazil will continue to import technology but only in a very select manner. Sophisticated technology, unavailable in Brazil, and involving essential industries will be given priority, particularly when the recipient is a government entity, a government controlled entity or a Brazilian company whose majority voting capital remains in the hands of the local Brazilian partners.

The feeling that the import of technology creates dependency is widespread. Local companies are urged not to buy ready-made technological packages from abroad although it is acknowledged that this may be simpler, in the long run it is dangerous because the recipient company remains forever dependent on know-how from abroad. By changing this ready-made-technology-purchase mentality, it is hoped that local companies will engage in research and develop their own technology.

Capability of Brazilian companies

Brazil has developed into an exporter of technology particularly in the road building and oil prospecting fields, in addition to certain industrial areas, by exporting genuinely native technology or technology transferred from abroad but already fully absorbed by local industry.

Exports of Brazilian technology in the cited cases, are greatly facilitated due to the fact that Brazilian labour costs are lower than these same costs in developed countries, and because the Brazilian government grants a wide range of tax benefits to exported goods and these benefits to some extent are equally applicable to exports of technology from Brazil.

FINEP

Government financed research programs such as FINEP (financing of studies and projects) as well as technological research funded by large industrial concerns and, in some instances, transfer of technology directly from foreign suppliers to Brazilian government entities, are factors to be considered in order to lend further support to this trend in Brazil's present transfer of technology policy.

FINEP has been playing an important role in Brazil's technological development. By financing local industry engaged in the manufacture of capital goods, this government entity would have a strong influence in the approval and implementation of engineering projects developed by local companies. Whenever such companies find it necessary to obtain technology from abroad, FINEP will apparently insist on having the technology agreements approved not only by INPI but also by FINEP itself.

SEI

Another key factor which must not be forgotten, is that Brazil is encouraging, in certain cases, the organization of joint ventures with the majority control held by Brazilians. An example of this is the computer sector. The Special Secretariat for Informatics (SEI) - an agency of the National Security Council - formulates and executes the national policy for informatics. A commission composed of members from SEI and from INPI get together periodically to examine and recommend the registration of acts and contracts for the transference of technology in this field. Approval will be granted only if no national similar exists. National similars comprise any technology that in the judgement of SEI/INPI can be adapted or developed in the country.

As it can be noted by the above, it is most difficult to land consulting and technology transfer contracts in Brazil. Success will be dictated by the degree of sophistication of the technology offered.

Registration of agreements

Registration of agreements for the transfer of technology is governed by 11 Normative Acts. As mentioned above, the National Institute for Industry Property (INPI) is the entity responsible for the application of these regulations.

Draft documents must be submitted to INPI, in English and Portuguese, for approval before an agreement is signed.

Registration with INPI, and with the Central Bank for remittances abroad, are required in order to:

- a) legalise payments, within Brazil or abroad;
- b) claim tax deductions against royalty and service payments;
- c) provide evidence of the agreement.

There are 5 categories of transfer of technology agreements, details of each will be outlined separately:

- 1) specialized technical services agreements (consultancy);
- 2) agreement for technical-industrial cooperation;
- 3) agreement for the supply of industrial technology;
- 4) licence agreement for trademark;
- 5) licence agreement for patent.

In general, contracts for technical-industrial cooperation agreements are limited to 5 years but may be extended to take account of new developments during the life of the agreement. The validity period for patents may be up to 15 years.

Legislation does not refer to specified terms for other types of agreements. Hitherto, however, INPI has limited to 5 years the initial payments period specified in all service agreements. In some cases this period may be extended. In other cases the period permitted may be less than 5 years, depending on the rate at which the technology can be absorbed.

A licensing agreement normally should cover only products that the Brazilian licensee will manufacture in the near future; additional agreements should be signed when and as it becomes necessary to cover new products. Where the licensee is a branch of a parent company, or a Brazilian subsidiary, 50 per cent of the ordinary shares of which are owned by foreign share holders, royalty remittances on patents or trademarks are not permitted.

Central bank regulations set out the range of royalties and fees within each industry, totalling from 5% down to 1% of the net sales value of the product. Agreements should define which of the partners is liable for Brazilian income tax. Remittances of fees are liable to Brazilian withholding tax.

1 - Specialized Technical Services agreements (consultancy)

- a) These agreements are for the specific purpose of planning, programming and preparing studies and projects as well as the provision of specialized services.
- b) Prior scrutiny of the agreement by INPI is not necessary where the service is concerned with inspection of plant or the installation of imported equipment.
- c) Where urgent technical services are rendered individually by foreign technicians and the total amount does not exceed US \$35,000 a formal agreement may be dispensed with and approval given on the basis of the invoice.
- d) The agreement may principally include:
 - i) the drafting of directive plans, feasibility studies and management organization studies;
 - ii) the drafting plans, projects, programs and technical supervision of all types of engineering studies;
 - iii) the installation of a plant.
- e) Services provided for foreign companies by foreign technicians, for a fixed term, must be of a level unattainable in Brazil. The need to contract abroad may be referred to national entities or trade associations. Wherever possible, the services of a foreign technician must be contracted through a national engineering/consulting company. Brazilian

companies may only contract foreign technicians where they have a capacity to absorb the technology. A chronogram for the absorption of the technology must be presented.

- f) Payment must be established as a fixed price, related to the nature of the services, the importance of the project and the standards normally applied. Payment may be made conditional upon the obtaining of results from the services required. The contractual term depends on the period necessary for the completion of the work.
- g) Registration of technical service agreements relating to motor vehicle manufacture, aerial surveys and computers are subject to particularly strict control.
- h) In the specific case of registration of agreements for the transfer of technology in the computer area INPI will only authorize the registration after the Special Secretariat for Informatics (SEI) approves the project. This may also apply where significant software is involved.

2 - Agreement for technical-industrial cooperation

- a) This category covers the provision of know-how and services required for the manufacture of industrial units, machines, equipment and related components and other capital goods.
- b) Conditions for transfer of technology and payment are generally similar to those for industrial technology agreements (item 3 below), but also include the option of payment on a cost plus fixed fee basis, in which case reference to sales or receipts volume are excluded.
- c) The contract is limited to a period of 5 years from the start of production, but may be extended. If an extension is allowed, payments must decrease over the period so as to allow a greater participation by national engineering.
- d) Where the recipient company does not possess the capacity to absorb the technology, services related to product engineering must be contracted by a national engineering/consulting company.
- e) If the product contains an element which is protected by patent in Brazil, a royalty-free licence agreement must be signed.

3 - Agreement for the supply of industrial technology

- a) This covers the transfer of knowledge and know-how not protected by patents registered in Brazil, and intended to be applied to the production of consumer goods.

b) The agreement must include the supply of technical information including specifications and processes and, where applicable, the rendering of technical assistance and the training of licensee's personnel.

c) The technology must:

i) be relevant to the government's priority for economic development, and bring real advantage to the industry sector concerned;

ii) correspond to technology levels currently unattained in Brazil,

iii) be applicable to export markets;

iv) allow the replacement of imports of the product.

d) Payment.

i) Must be directly related to the commencement of manufacture in Brazil. The level of payment is dependent upon the complexity of the technology, the supply, on a continuing basis, of information by the licensor to keep the licensee abreast of developments and the period set for the absorption of the technology by the licensee.

ii) Payment is related to the actual application of the patent (1%) and to the sale of the resulting product. The level of payment can be on a percentage basis or as a fixed value per unit, related to the net sales price or linked to profits.

iii) Where applicable, the total amount of payment for the supply of the technology may be fixed or estimated in advance, subject to an agreed limit which includes technical assistance and training. If payments reach the ceiling before the agreement expires, the other contractual provisions nevertheless remain in force.

e) The contract must establish the term considered necessary for the recipient to absorb the technology. The agreement must detail the recipient's technological capacity, and provide a chronogram for technology absorption and personnel training.

f) The agreement must provide for the supply of supplementary data, linked to the technology transferred. If such innovations are subject to a patent in Brazil, a separate "licence agreement" will also have to be prepared.

- g) The agreement should not contain any reference to industrial property rights such as "patented information". The agreement may indicate the patent held by the supplier of the technology only in its country of origin.
- h) The agreement may not impose the use of foreign trademark as a condition for the supply of the technology.
- i) Know-how relating to the manufacture of motor vehicles may not be registered.

4 - Licence agreement for the use of trademark or publicity slogan

- a) This is "licence" agreement authorizing the use by third parties of a trademark or slogan registered in Brazil.
- b) Payment is on the same basis as for patents (item 5 below).
- c) The licensee may use his own trademark or slogan together with that licensed to him.

5 - Licence agreement for the exploitation of a patent

- a) A "licence" agreement authorizes the exploitation by a third party of patent registered in Brazil.
- b) The licence must include the supply of technical information including specifications and processes and, where applicable, the rendering of technical assistance and the training of licensee's personnel.
- c) Payment is related to the actual application of a patent (1%) and to the sale of the resulting product. The level of payment can be on a percentage basis or as a fixed value per unit, related to the net sales price or linked to profits.
- d) Net price means the value of the invoice, based on actual sales, less charges, taxes, raw materials and components imported either from the licensor or from any other suppliers, commissions, return credits, freight, insurance and packaging expenses, plus any other deductions agreed on by the parties.
- e) A fixed value can be assigned to the outright purchase of patent rights.
- f) A fixed value can be established for the initial supply of technical documentation, which will represent an advance payment on the remuneration due. This can be paid as a lump sum, after the agreement comes into force.

- g) The estimate of the value of the remuneration of technicians must be based on per diem rates relevant to each technician's expertise and an assessment of the period necessary for the rendering of technical assistance and the completion of the training program. The maintenance expenses of foreign technicians in Brazil must be paid in Cruzados Novos. These payments can only be made at the rate the services are rendered, not as a lump sum.
- h) Period of Validity: up to 15 years for invention and model patents and up to 10 years for industrial design patents.
- i) The licensee is the owner of improvements he may introduce into the product or process. The licensor is obliged to supply immediately to the licensee details of improvements made by the licensor during the license period.
- j) The agreement may not prohibit the full use of the data transferred after the patent expires.

Conclusion

As can be appreciated from the foregoing Brazilian regulations legislation concerning the transfer of technology are complex. Firms contemplating a bilateral agreement involving registration with INPI and the payment of remittances would be well advised to consult a local lawyer.

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Telex: (021) 33458

Momsen, Leonardos & Cia.
Rua Teofilo Otoni 63 - 10 andar
20090 Rio de Janeiro - RJ
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Tel: (021) 223-3131
Telex: (021) 32487

Garcia & Keener
Av. Rio Branco 99 - 15 andar
20040 Rio de Janeiro - RJ
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Av. Francisco Sa 281
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