

BUSINESS TRANSACTION OF INTELLECTUAL INTANGIBLES: THE EVIDENCE AND THE PECULIARITIES OF A NEW FORM OF PROPERTY RIGHTS

José Carlos Vaz e Dias¹

Abstract

This article addresses the inquiries of scholars about intellectual intangibles as effective elements to deserve proprietary protection, since it exists the understanding that intangibles (technological inventions, trademarks etc.) hold peculiarities in their nature that prevent the applicability of the doctrine of the real rights and that highlight the essential exclusionary character to competitors. Yet, the refusal to accept the proprietary nature of intellectual matters passes the wrong idea that protection secured under the intellectual property rights aim to grant a monopoly, not the right of effective exploitation of intangibles. On the other hand, there are arguments justifying the proprietary character related to intangibles. Among them is the patrimonial element linked to property rights that secures to owners the direct and indirect exploitation of the legal matter, as it occurs with material matters, for the use, exploitation and benefit. This article will deal therefore with the economic element of property and will take into account the examination of four (4) business transactions of intangibles: patent and trademark licensing, franchising, securization and buy and sell. Within this examination, it will be addressed the main legal aspects and peculiarities of the aforementioned business transactions concerning the immaterial nature of proprietary protection.

Keywords: Private Property. Intellectual Property Rights. Licensing and Technology Transfer. Security Interest. Trademark and Patent Assignment.

INTRODUCTION

One of the existing legal discussions and controversies in the study of intellectual property rights is whether the creation of the human mind is an adequate subject matter for property rights and if the Theory of Property may apply to intellectual property.

This discussion comes from the intangible nature of intellectual works that prevents the adequate applicability of the Theory of the Property. Further, it derives from the fact that inventions, trademarks and copyrights were initially secured under the monopoly concept where the Crown granted royal privilege to an

¹ LLM/Ph.D. Kent – England. Adjunct Professor at the Faculty of Law of the State University of Rio de Janeiro (UERJ). Legal Director of the Technology Transfer and Innovation Department of UERJ ((INOVUERJ). Email: jose.dias@vdav.com.br.

individual with the sole objective to secure a temporary monopoly in exchange for the exploitation, production and disclosure of a technology to an apprenticeship.

Therefore, there is a general understanding that intellectual property rights comprise essentially exclusionary rights, which are those to exclude third parties from the access to a specific technology or a development of the human mind (BARBOSA, 2010). Under this concept, intellectual property rights describe an inventor's monopoly and do not produce a property effect.²

This position conflicts with scholars' views based on the adequate meaning of intellectual property rights as a legal entitlement comprising specific laws, norms and jurisprudence that address the protection of intellectual works (DIAS, 2008). Further to that, it views intellectual property rights as adequate match to the Theory of Property as developed by the Civil Law System with the peculiarities derived from the immaterial nature of the product derived from the mind of the intellect.³

This paper has the purpose of addressing two issues related to the nature of the intellectual property rights, as follows: (a) adequacy of intellectual works as matters for acquisition, ownership and property and (b) the economic bundle rights granted under the intellectual property rights. In this perspective, we will seek to provide an answer to the following question: Would inventions and trademark be adequate to allow the titleholder to explore them in the market? Would intellectual property rights go further to the "direito de exclusiva" or aims essentially to exclude others?

This paper will further give directions to new ways of doing business in Brazil by means of exploiting intangibles.

The issues of the aforementioned intellectual property right will be dealt with under the business transactions of patent and trademark. In this matter, it seems to be a consistent understanding that trademarks, and so patents may aggregate value to products and services in a market, draw the awareness of consumers, help the competitiveness of a company and maintain the reputation of a business. Further to that, the importance of

² Legal scholars such as Oliveira Ascensão and Denis Borges Barbosa understand that "intellectual property rights" is an inadequate term to refer to the protection to intellectual works. They commonly use the Portuguese expression "direito de exclusiva" (exclusionary rights or rights of exclusivity) instead of intellectual property when dealing with the nature of the rights granted to intellectual works. See BARBOSA, Denis Borges. "Limites do Direito de Patente – Fair Usage, Exaustão e Importação Paralela". Available at <http://denisbarbosa.addr.com/103.rtf>. Access on September 24, 2015 and BARBOSA, Denis Borges. *Tratado da Propriedade Intelectual*. Tomo I. Rio de Janeiro. Lumens Juris Editora. 2010. Pages 74-87. Rio de Janeiro. See ASCENSÃO, José de Oliveira. *Direito Autoral*. 2nd ed. Rio de Janeiro. Renovar. 1997. See also PORTO, Patricia Carvalho da Rocha. "A Concorrência Desleal e o Crime de Falsa Alegação de Direito de Exclusiva". Available at <http://nbb.com.br/pub/propriedade11.pdf>. Access on September 24, 2015.

³ CERQUEIRA, João da Gama. *Tratado da Propriedade Industrial*. 2nd. Ed. Vol. I. São Paulo. Revista dos Tribunais. 1982. Pages 33-98 and NASCIMENTO, João Paulo Capella. "A Natureza Jurídica do Direito sobre os Bens Imateriais". *Revista da ABPI*, n. 28. Pages- 23-32. See also, DIAS, José Carlos Vaz e. "Legal Aspects Related to the Joint Ownership of Inventions: The Civil Code and the innovation Law Under Perspective". *Revista Semestral de Direito Empresarial*. n. 3. Jul/Dez. 2008. Pages 173-213.

trademarks and patents to commercial venture and arrangements cannot be under emphasized. They are crucial to business transactions and investments to local and foreign companies.

We shall explore the possible commercial arrangements that applicants/titleholders may undertake and their peculiarities in Brazil, and attempt to evidence that the rights granted from the intellectual property rights are not only of exclusionary nature. They also permit the titleholder to venture into the market, exploit financially its trademarks and patents for profit purposes, generate revenues and use them as a security for a loan.

For this purpose, four examples of business transaction models related to patents and trademarks are provided in this work: licensing, franchising assignment rights and securization. The first two arrangements are directed to the exploitation of a patent/trademark by authorized third parties, while the latter two involve the use of the patent/trademark by its holder via direct assignment to third parties. The legal framework related to trademark and patent protection and exploitation will be discussed when addressing each of these types of transactions.

A brief account of the definition and specification of the property nature of patents and trademarks as well as a preliminary explanation of the scholars' controversy on the concept of intellectual property rights are needed for justifying that intellectual property goes beyond the exclusionary rights.

THE PROPERTY NATURE OF INTELLECTUAL INTANGIBLES: RELEVANCE AND PECULIARITIES

Before addressing the perspective of patents and trademarks transactions, it is important to determine the nature of their rights in which the commercial exploitation will be grounded. It is recognized that defining the nature of the intellectual property is not essentially an academic rambling of legal knowledge. The legal nature of rights highlights the manner that the persons and things or legal matters relate to each other, and permit the adequate interpretation of the involved rules and clarity in the application of ancillary laws.

The discussion about the nature of intellectual property rights involves questions on whether such rights are classified essentially as exclusionary, known in Brazil as a "direito de exclusiva", or if they encompass the ownership and the right to fully use and economically exploit the property.

The concept of the "direito de exclusiva" is based on the understanding that inventions, trademarks and intellectual works in general are not adequate matter for ownership under the Theory of Property applicable to the Civil Law countries (DENIS, 2001, p.79). Accordingly, the *erga omnes*⁴ effect of the property right developed under the Roman times require the materiality of legal matter or thing (*res incorporales*) and the effective

⁴ *Erga omnes* is a Latin word meaning 'before all' that expresses the binding effects of third parties to the ownership rights secured to the owner of a thing. This means that the owner may prevent any unauthorized third party from using or exploiting the thing required owner's rights.

possession of the thing in the owner's hand where the exercise will be absolute and sole by the owner. This include the maintenance of the thing in the hands of the owner, the domination and the transfer of the thing from one hand (owner's hand) to third parties, and the right to request the return of the thing to the owner's.

The intangibility of the intellectual works and the fact that they may be used by different persons at the same time (trademark or literary work, such as a book) and developed by third parties at the same time (inventions that are developed at the same time by different collaboration teams) prevent the efficacy of the erga omnes and the exercise of the absolute rights. This is called in re potestas. This may be clearly expressed in the words of the scholar Denis Borges Barbosa⁵, as follows:

The characteristic of non-rivalry and non-exclusivity of intangibles linked to intellectual creations permit the free reproduction or their recreation, which are processes for producing identical matters, but different. When, by means of a patent or an exclusive author, the law secures to a person the power to prohibit the reproduction or recreation, it is secured to such matters a quality comparable to tangible materials subject to property rights, thereby prevailing the exclusivity of the rights on identical matters of absolute autonomous creation.

The lack of materiality is added to the fact that Article I, Section 8, Clause 8 of the American Constitution deals with patents by highlighting the exclusionary rights, as follows:

Section. 8.

The Congress shall have the Power to ...promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive right to their respective Writings and Discoveries;

Further to that, historical aspects are used to justify the theory under the "direito de exclusiva" in the sense that patent rights granted by the Crown back in the 12th up to the 17th centuries were justified by the temporary monopoly and exclusion of competitors in exchange for the exploitation of the invention (PHILLIPS, 2005. P. 3-105).

Notwithstanding the proposed arguments of the "direito de exclusiva" theory, it is believed that it is not possible to hold to an inflexible concept of property rights, which permits that intangibles and other matters are subject matter for the property relationship and effect (PEREIRA, 2004). Even during the Roman Empire, the property definition was influenced by political decisions and therefore modified by the need of the elite and senators to maintain power and influence. Therefore, scholars were hired to elaborate new legal institutes such as the traditio and in iure cessio.⁶ Therefore, there is no limitation to the extension of matters subject to property

⁶ The development of the concept of property under the Roman Legal System was not linear, but mixed with needed political interests and by the invasion and domination of diverse territory. According to the Brazilian scholar Caio da Silva Pereira: "Only the Roman citizens could be owners, only the roman soil could be their property, since the domination nationalized the conquered land. The acquisition technique - mancipatio – that was a typical Roman ceremony restricted the phenomenon and limited the dominium ex iure quiritium. At a later stage, it was extended the ius commercii to foreigners (right to appropriate things for commercial purposes), it was amplified the phenomenon and limited the dominium ex iure quiritium." (free translation). PEREIRA, Caio Mário da Silva. Instituições de Direito Civil. 8th ed. Rio de Janeiro: Forense, 2004. Vol. 4. Page 82.

rights insofar as they are created or determined by law (numerus clausus requirements) since the exclusion or extension will be most related to existing social and economic development of the time, which do not necessarily comprise with the “pure” Roman concept of property.

This understanding is better provided by our scholar Caio Mario⁷, as follows:

The true is that although individual property prevailing in our days is expressed in classic terms and using the same terminology of the old times, it does not preserve however identical content of the historical origins. It is correct that it is recognized to the dominus the power on the thing, it is understandable that the dominium comprises the same attributes from the old times – ius utendi, fruendi et abutendi. However, it is undeniable that such attributes or faculties bear evident legal restrictions that that are frequent and severe, which permits the creation of new legal notions (free translation).

Viewing intellectual property as property rights does not infringe scholar’s legal developments, since the legal relationship between author/inventor and its intellectual creation is similar to those ruling the owner and the thing (res corporales). It is important to highlight that the nature of the relationship falls immediately and directly on the intangible matter.

In order to deal with the immaterial peculiarities of the involved matter, the Federal Law n°. 9,279/96 (Industrial Property law)⁸ and the Federal Law n°. 9,610/98⁹ (Copyright Law) were enacted to establish specific rules of acquisition and exercise of rights.

Further to that, trademarks and technological inventions are regarded as legal matters under property rights (“bens jurídicos”), as they are valuable assets to individuals and companies and deserve the protection of the law.

A trademark is understood as any visually perceptible sign used in competition to distinguish and/or certify industrial products, commercial articles, and professional services from those that are manufactured or rendered in the market, especially by third parties.¹⁰

Inventions are those technological developments not excluded by Article 10 of Law 9,279/96 and that fulfill the following patentability requirements: novelty, inventive step and industrial applicability.¹¹

⁷ Id. p. 84.

⁸ Law 9,279 of May 14, 1996. See http://www.planalto.gov.br/ccivil_03/Leis/L9279.htm. Access on September 10, 2015.

⁹ Lei n° 9,610 of February 19, 1998. See http://www.planalto.gov.br/ccivil_03/leis/L9610.htm. Access on September 10, 2015.

¹⁰ See art. 122 and 123 of Law 9,279/1996: “Art. 122. Any distinctive visually perceivable signs that are not included in legal prohibitions shall be eligible for registration as a mark.” “123. For the purposes of this Law, the following definitions apply:

I. product or service mark: one which is used to distinguish a product or service from another that is identical, similar, or alike, but of different origin.

II. certification mark: one that is used to attest to the conformity of a product or service with certain technical standards or specifications, particularly regarding its quality, nature, material used and methodology employed; and

III. collective mark: one that is used to identify products or services provided by members of a certain entity” (translation obtained from the website http://www.wipo.int/wipolex/en/text.jsp?file_id=125397. Access on September 4, 2015.

¹¹ See <http://www.wipo.int/clea/en/details.jsp?id=515>. Access on September 10, 2015.

Since both intellectual works are considered as important assets for companies' competitiveness, they have been expressly provided as fundamental rights in subsection XXIX of Article 5 of the Federal Constitution.¹² Patents and trademarks are also recognized as subject matters of ownership and property, which secure exclusive rights to the owner, which is provided by Article 5 of the Industrial Property Law¹³, as it classifies trademarks and patents as chattels or moveable property. Therefore, it makes the Theory of Property Rights under the Brazilian Civil Code¹⁴ applicable to trademark/patent.¹⁵

The Theory of Property Rights under the Law of the land has the objective to expressly stipulate the rights granted to the proprietor over its objects or intangibles and set the boundaries of property to prevent abusive practices by proprietor and the violation of third parties. Accordingly, the property rights are viewed under two different—but evolving—perspectives (TEPEDINO, 1989. P. 73-78), which provide the legal attributes and obligations to be complied with by the proprietor.¹⁶ The first one is the structural perspective, which expresses the proprietor's powers to extensively exercise the property and obtain profit from it by means of exploiting the involved object directly or granting rights to third parties.¹⁷ It also opens the possibility for the proprietor to recover the protected object or intangible against unauthorized use by third parties (*rei vindicatio*) and obtain

¹² Constitution of the Federative Republic of Brazil:

Article 5. All persons are equal before the law, without any distinction whatsoever, Brazilians and foreigners residing in the country being ensured of inviolability of the right to life, to liberty, to equality, to security and to property, on the following terms: (...) XXIX – the law shall ensure the authors of industrial inventions of a temporary privilege for their use, as well as protection of industrial creations, property of trademarks, names of companies and other distinctive signs, viewing the social interest and the technological and economic development of the country;" (translation obtained at Digital Library of the Chamber of Deputies. Constitution of the Federative Republic of Brazil Constitutional text of October 5, 1988, with the alterations introduced by Constitutional Amendments No. 1/1992 through 64/2010 and by Revision Constitutional Amendments No. 1/1994 through 6/1994. Documentation and Information Center Publishing Coordination Brasília. 3rd. edition. 2010.)

¹³ Art. 5 of Law 9,279/96: "5. For legal effects, industrial property rights are deemed to be movable property."

¹⁴ Article 1215. Law 10,406 of January 10, 2002 (Civil Code): "Art. 1225 – the following are real rights:

(1) Property;"

"Art. 126. Real rights over movable things, when constituted or transmitted by inter vivos acts, are acquired only on delivery of the thing."

See <http://www.wipo.int/wipolex/en/details.jsp?id=9615>. Access on September 10, 2015.

¹⁵ The theory of property rights may be applicable also to industrial property rights (trademarks and patents) bearing in mind the peculiar nature of intellectual works and the granted rights, such as the intangible characteristic and its limited existence in time and territory. Moreover, the protection requires compliance with specific principles, such as the First-to-File, the Territory and Speciality and the patentability and trademark registration requirements.

¹⁶ Under Brazilian law, legal attributes of property are those legal powers assured to proprietors directly and immediately related to the protected object and intangible. This means that the titleholder or proprietor may use and dispose the concerned objects and intangibles by any means insofar it does not violate third parties and complies with the Social Functionality. PEREIRA, Caio Mário da Silva. *Instituições de Direito Civil*. 8th ed. Rio de Janeiro: Forense, 2004. Vol. 4. Pages 159-172.

¹⁷ The legal powers are set out by Article 1.228 of the Civil Code and encompass the direct exploitation of the right (*ius utendi*), the rights to receive the fruits from third parties' exploitation (*ius fruendi*), and the assignment or sale of the rights to someone else (*ius abutendi*). Civil Code, art. 1.228.

"The proprietor has the power to use, exploit and dispose of the thing, and the right to recover it from the power of anyone who wrongfully possesses or hold it."

losses and damages. Therefore, the remedies are secured to infringement of property rights, as stipulated by the Civil Procedural Code and other specific laws, such as the Industrial Property Law.¹⁸

The second perspective involves its functional aspects, which demand the owner to exercise the property according to the economic and social objectives related to the nature of the matter or intangible and the characteristics of granted rights.¹⁹ Therefore, a trademark is an adequate intangible for property rights and the titleholder may extensively exploit it in the market, including the use of it as a transaction.

It is important to note that Brazil requires trademark registration and a patent grant at the INPI to secure the exclusive rights to its titleholder or for third parties to exploit commercially the registered trademark/granted patent and enforce its rights in court, as provided by Articles 42, 129 and 130 of the Industrial Property Law. Such requirement is justified by the fact that registration/patent granted are seen under the law as rights recognized by a competent state agency, therefore granted, and secured by it.

On the other hand, patents and trademarks under prosecution (patent/trademark applications) by the INPI are viewed as “expectation of rights” where the registration requirements (distinctiveness, visual perception, originality and observance to the local laws) and patent requirements (novelty, inventive step and industrial applicability) are yet to be examined.

Notwithstanding the aforementioned, the Industrial Property Law secures to the patent/trademark applicant the possibility to exercise some legal attributes related to property rights. According to Article 130 of the Industrial Property Law, the trademark applicant or the owner may use directly the mark by means of identifying products and services in the market, assigning the property rights and licensing its use to third parties²⁰ and taking extrajudicial or court measures against infringers.²¹

¹⁸ The *rei vindicatio* comes under the industrial property rights at a great extent from the exclusive rights (right to exclude others) granted by the Industrial Property Law. In particular, stating: “Article 42. A patent confers on its titleholder the right to prevent a third party from, without his consent, producing, using, offering for sale, selling or importing for these purposes: I. a product that is the object of the patent; II. a process or a product directly obtained by a patented process. (1) The patent holder is further assured the right to prevent third parties from contributing to the perpetration by others of the acts referred to in this Article. (2) A process patent right, referred to in Item II, shall be deemed to have occurred when the possessor or owner does not prove, by a specific judicial ruling, that his product was obtained by a manufacturing process different than the one protected by the patent.” Article 129. The property of a mark is acquired by means of registration, when validly granted pursuant to the provisions of this Law, and its exclusive use throughout the national territory is assured to the titleholder, with due regard, as to collective and certification marks, to the provision in Articles 147 and 148.” Law No. 9.279/96, Articles 42 and 129 (emphasis added), available at http://www.wipo.int/wipolex/en/text.jsp?file_id=125397. Access on September 10-, 2015.

¹⁹ The social function of intellectual property rights is broadly outlined in the first paragraph of Article 1228 of the Civil Code, art. 1228: §1st. The right of ownership must be exercised in a manner consistent with its economic and social ends that, in conformity with the provisions of special legislation, so as to preserve the flora, fauna, natural beauty, ecological equilibrium and artistic and historical patrimony, avoiding pollution of the air and water. The Industrial Property Law sets out forfeiture as an event for end of trademarks rights and an effect for non-compliance of the social functionality principle. Forfeiture takes place due to the non-use of a registered trademark for a period of five (5) years as from the grant or if the registered trademark has been used in a modified form that implies modification in its original characteristic as granted by the INPI. See Law 9,279/96 Articles 143–45.

²⁰ The rights to exploit patents and trademarks by means of licensing agreements are limited by cogent laws, including public order laws (i.e. foreign exchange control laws, taxation, consumer laws and antitrust) and other mandatory laws that cannot be disposed

PATENT AND TRADEMARK LICENSING

One of the most common ways to exploit a patent and/or a trademark in the Brazilian territory is granting rights for third parties to use it by means of a licensing agreement. This kind of commercial agreement permits the involved industrial property right to be exploited and available in the Brazilian market and secures to the owner/licensor continuous higher revenues or royalties.²²

Such rights may be extensive or limited, and comprise the possibility for the licensee to defend the licensed patent or trademark in court due to infringement. In view of the binding nature of licensing, the contractual terms and conditions will be regarded as law between the parties. Therefore, the contracting parties require stipulating in the agreement all involved rights, obligations and requirements.

In addition, licensing of patents and trademarks may be of different nature, as detailed below:

1. Exclusive Rights: licensee will be the only party to exploit the trademark/patent in the market excluding licensor/titleholder and third parties from the exploitation. Therefore, licensee may prevent anyone from manufacturing and marketing products identified by the licensed trademarks or produced under the licensed patent;

by third parties (i.e. prior recordation of trademark licensing at INPI for royalty remittances overseas and the formality requirements). Public order laws are those aiming to protect essentially the best interest of the community or to preserve directly the values of the Brazilian society. Such laws are usually public administration laws, taxation, consumer rights and antitrust laws. FIGUEIREDO, Marcelo and BROLLO, Maria Alice Deucher. "Anotações a Respeito dos Planos Econômicos – Alteração e Política Salarial – Reajuste de Salários pela Lei antiga – Direito Adquirido, Mera Expectativa de Direito e Norma de Ordem Pública – Resenha Doutrinária e Jurisprudencial". *Revista Trimestral de Direito Público* 6. 1992. Pages 234-248. An example of public order laws is the Consumer Code that applies to each and all business affecting in a sense the effectiveness of the consumer rights. Contractual provisions excluding licensee or licensor from repairing and indemnifying consumers due product/service defect are neither valid nor enforceable in Brazil. This comes from the fact that Article 12 of the Consumer Code (Law 8,078 of September 11 1990) grants to consumers the possibility to seek the repair and indemnification from any party involved in the delivery of goods or rendering of services. See http://www.planalto.gov.br/ccivil_03/Leis/L8078.htm. Access on September 21, 2015. Mandatory laws are cogent but do not aim to protect directly the community. Instead, they aim to balance business relationship or stipulate specific formalities for some acts and business. Article 4 of The Brazilian Franchise Law (Law 8,955 of December 15, 1994) determines the obligation of franchisor to deliver a disclosure document to the prospective franchisee so-called Franchise Offering Circular, at least 10 days before the executing of a franchise agreement or the receipt of any remuneration derived from the franchise relationship. See http://www.planalto.gov.br/ccivil_03/leis/l8955.htm. Access on September 21, 2015.

²¹ The guarantee comes from the need to protect the existing reputation and integrity of the mark, despite the fact that a trademark is being prosecuted at the INPI. Currently, this guarantee justifies due to the backlog of work at the INPI, which has been delaying substantially the examination proceedings. "Article 130. "It is also secured to a trademark titleholder or applicant the following rights:

I – assign the registration or application;

II – license its us;

III – ensure is material integrity or reputation.

²² The remuneration paid, credited, remitted to a third party for the exploitation of a patent or trademark and know-how as well as for the use of the mineral and vegetal resources is called royalties following the wording of Article 22 of Law 4,506 of November 30, 1964. See http://www.planalto.gov.br/ccivil_03/leis/L4506.htm. Access on September 21, 2015.

2. Non-Exclusive Rights: licensor will retain the rights to use the trademark or patent and will be further entitled to grant concurrent licenses to third parties;
3. Sole License Rights: licensee will be the authorized to exploit the license agreement, but licensor will retain the right to also use the trademark/patent;
4. Master License: licensee is empowered by licensor to concentrate the exploitation in a determined region or territory and grant to sublicensees specific rights for the trademark/patent exploitation. Such kind of licenses is very common in licensing where licensors identify regions in which its licensed products and trademark will be commercialized and where it is evidenced, that licensee has the production capability to fulfill the concerned broader market. Master License grants licensees the right to exploit extensively in territory the involved patent or trademark thereby permitting revenue increase for licensee and licensor.

Patent and/or Trademark licensing in Brazil is subject to prior recordation of the agreement at the INPI for the following purposes (DIAS, 2004. P.28-30):

Produce effect of agreement before third parties, including the Brazilian Central Bank (BACEN) for remittances overseas and to entitle licensee to proceed in court against the infringement of the licensed patent or trademark, when the agreements provides so;
Entitle licensee to proceed with royalty remittances to a foreign licensor and
Empower licensee to fiscally deduct the remitted/paid royalties to licensor.

This means that recordation is not needed for the validity of the agreement between the parties or for maintaining the validity of the trademarks/patents in Brazil and/or to prevent forfeiture proceedings. This is regarded as a relevant improvement of the Industrial Property Law in the sense that the prior law required that only the patent/patent titleholder would be allowed to prevent the nullity for lack of use. The use of the industrial property right by third parties, such as licensees or distributors would demand the recordation of the concerned agreement before the INPI.²³ Nowadays, forfeiture of a trademark/patent may be rejected by the owner by simply evidencing the use before the INPI and the courts the exploitation of the products identified by the licensed trademark or manufactured by a patent licensed.

The adequate use of a trademark in Brazil may be evidenced by licensee's use insofar as the licensing agreement is signed between the parties and invoices evidencing the sale of the identified product are presented to the INPI during forfeiture proceedings.

It should be highlighted that it is absent in the Brazilian legal framework a compilation of rules addressing patent/trademark licensing. One may find scattered rules addressing licensing agreements. The specialized attorneys also take into account the decisions issued by the INPI as an important source of ruling. In view of that,

²³ Articles 48 and 93 of Law 5,771 of December 21, 1972 at http://www.planalto.gov.br/ccivil_03/Leis/L5772.htm. Access on September 22, 2015.

the provisions in Articles 565 to 578 and 579 to 592 of the Civil Code with respect to leasing agreement should also be taken into account by licensor/licensee, when drafting this type of agreement.²⁴

Further to that, patent/trademark licensing is subject to foreign exchange control laws and unwritten rules of the INPI applied during the recordation proceedings of licensing.²⁵ As a result, the parties need to comply with specific rules, as follows:

1. Licensing agreements are required to be in written;
2. Licensor needs to enlist the trademarks duly filed/registered in Brazil that will be subject to licensing by specifying the number of the application/registration;
3. Licensor requires maintenance of the validity of the enlisted trademarks in Brazil, including the obligation to defend them in court, unless license is entitled to do so;
4. Adequate designation of the parties;
5. Match the term of the agreement to the duration of the validity of the enlisted patent/trademarks in Brazil;
6. Stipulation of the remuneration for the license rights. The contractual omission in this regard is understood as royalty free;
7. Indication of the responsible party for the collection/payment of the withholding taxes applicable to royalty remittances; among others.

It is important to note that royalty remittances overseas suffer restraints from the foreign exchange control laws when the contracting parties are related. Accordingly, when a licensor directly or indirectly controls a licensee,²⁶ the applicable royalties may not surpass the amount of 1% of the net sales revenue obtained by the

²⁴ The applicability of these ancillary rules of the Civil Code is possible in view of the fact that patents and trademarks are chattels or moveable property under Article 5 of the Industrial Property Rights. A licensee in this regard is considered equal to a lessee of movable property.

²⁵ The foreign exchange control laws applicable to licensing of industrial property rights (especially patents and trademarks) include Law 4,131 of September 3, 1962, Law 4,506 of November 30, 1964, Law 8,383 of December 31, 1991, and the regulations of the Brazilian Central Bank (BACEN). Unwritten rules derived from revoked INPI's regulations are still applicable by the agency when recording technology transfer agreements and licensing agreements. This practice is considered illegal in view of the Principle of Legality that the INPI and other public agencies are subject to comply. Nevertheless, the INPI still applies the revoked rules of technology transfer. DIAS, José Carlos Vaz e. "Os Princípios da Legalidade e da Competência e os Limites de Atuação do INPI no Direito de Concorrência." *Revista do IBRAC*. Vol. 5, n. 9. 1988. Pages 13-21.

²⁶ A controlling party is the company that owns more than 50% of the voting shares and the power to elect the majority of the controlled parties' administrators. Civil Code, art. 1098, Item I and II. A company is controlled where:

I – another company holds, through the capital of the controlled company, a majority of votes on resolutions put to meetings or to the assembly of partners, members or shareholders, as the case may be, and the power to elect a majority of the administrators of the controlled company;

II- control over the company referred to in the preceding item is held by another company, through shares or quotas held through other controlled companies.

licensee from the exploitation of the product identified by the licensed trademark. This amount is determined by the cap royalties used by Ministerial Ordinance 436/58²⁷ for fiscal deductibility.

Royalty calculation and remittance can only take place from licensed trademarks that are already registered before the INPI. Therefore, trademark applications cannot generate royalties or remittances of any kind to a licensor. Patent applications on the other hand can generate royalties but remittances overseas to the licensor/owner can take place only after the granting of the patent at the INPI.²⁸ This different treatment proposed by the INPI is not adequately justified and understood, since inventions and trademarks require the fulfillment of legal requirements to receive protection by patents and registration.

When the contracting parties are unrelated, no royalty limits are imposed and therefore, the parties may freely stipulate the value of the remuneration. No other specific regulations are imposed in principle to limit the freedom to contract of a licensing patent and/or trademark.²⁹ The parties may further renew the contractual period, and extend or modify the terms and conditions of the agreement. However, any modifications are valid and effective when proposed in written and executed by the parties and two witnesses. The signature of the foreign licensor requires notarization by a Notary Public and the notarized demands further legalization at the Brazilian Consulate.³⁰

Modifications, renewals, and extension of any kind require prior recordation at the INPI. Recordation will be applicable only to those patents/trademarks filed or patented/registered at the INPI, as they need to be valid and effective in the Brazilian territory.

As to the formalities, the agreement needs to be signed by the parties and two witnesses. The signature of the foreign party's representative should be notarized and legalized before the Brazilian Consulate. The parties and witnesses should further place their initials on each page of the agreement.

TRADEMARK AND FRANCHISING IN BRAZIL

Franchising is one of the most effective businesses for the promotion of goods and services in the Brazilian territory. It generates nowadays the total revenue of BR\$ 111,582 billion (approximately \$50 billion

²⁷ See <http://www.inpi.gov.br/menu-servicos/transferencia/arquivos/legislacao-transferencia-de-tecnologia/portaria436.pdf>.

²⁸ Article 11 of Law 4,131 of December 30, 1962. See at http://www.planalto.gov.br/ccivil_03/LEIS/L4131.htm. Access on September 23, 2015.

²⁹ Nevertheless, the antitrust regulations and the Consumer Rights Code are laws of public order and the terms and conditions of a licensing agreement and the exercise of the rights by the parties cannot violate them. "Art. 12 of Consumer Code: The manufacturer, producer, and builder, both Brazilian and foreign and the importers are liable, independently of fault for redress for damages caused to consumers by defects, resulting from the design, manufacture, construction, assembly or erection, formulas, handling and making up, presentation or packing of their product, as well as for insufficient or inadequate information on the use or hazard thereof."

USD), as published by the Brazilian Franchise Association³¹. Further to that, the sector counted in 2013 with 114,400 franchising units operating locally, which generated more than 1,029,681 jobs in the same year.³²

The trademark role to the success of franchising comes from the prevailing Business Format Franchising in the land where prescribed operational, commercial, and marketing methodologies are granted and developed to franchisees³³ together with trademarks and trade dress peculiar business/service.³⁴

According to the Brazilian Franchise Law,³⁵ franchise is defined as “the system by which a franchisor grants to franchisee the right of trademark or patent use, associated to the right to exclusive or semi-exclusive distribution of products or services and, eventually, also the right of use of technology of business implantation and administration or operational system developed or detained by franchisor against direct or indirect remuneration, however, without characterizing an employment relationship”.

In view of that, trademarks are essential to the existence of franchising and to the validity of a franchise agreement. Because recordation of franchise agreement is also needed for remittance purposes overseas and tax deductibility, the agreement requires prior recordation at the INPI. Therefore, the INPI demands that the franchised trademarks filed/registered in Brazil are adequately specified in the agreement.

Trademarks are also looked upon by franchisees, in practical terms, as a convincing business argument for investment or the heart of the business decision or franchise deal. In this matter, it should be highlighted that trade dress of a service and business is protected by Brazilian laws when presents distinctive business element. Such protection takes place by the unfair competition rules set out by Articles 186 to 188,³⁶ and 884³⁷ of the Civil Code, and those specific rules applicable to unfair competition.³⁸

³¹ See <http://www.portaldofranchising.com.br/numeros-do-franchising/evolucao-do-setor-de-franchising#>. Access on October 5, 2015.

³² *Evolução do Setor 2003–2013* (author translation: “Industry Evolution 2003–2013”), Associação Brasileira de Franchising (2013), available at <http://www.portaldofranchising.com.br/numeros-do-franchising/evolucao-do-setor-de-franchising>. Access on September 29, 2015.

³³ BESHLE, Barbara. “An Introduction to Franchising”. IFA Educational Foundation, Washington. 2010, available at http://www.franchise.org/uploadedfiles/franchise_industry/resources/education_foundation/introtofranchising_final.pdf. Access on September 29, 2015.

The prescribed business and operation method and the reputation of the trademark provide to third parties an opportunity to be adequately trained on how to operate an unknown business. Further to that, franchisee will have access to the peculiar and uniform architecture of the franchised stores. In view of the relevant information and materials disposed by franchisor to franchisee, it is believed that the business failure in franchising is lessen.

The success of franchising in Brazil may be explaining by different reasons, including the involved lower risk than with traditional methods in a country with continental size and market diversity.

³⁵ Available at https://www.planalto.gov.br/ccivil_03/Leis/L8955.htm. Access on September 29, 2015.

³⁶ These provisions deal with the identification, concept and limits of illicit acts committed by any person that may generate indemnification from losses and damages.

³⁷ Article 884 of the Civil Code addresses illicit enrichment, including the unauthorized use of trade dress of products and services by third parties.

³⁸ Article 195 of the Industrial Property Law enlists those unfair competition practices regarded as crime, including the use of fraudulent means by a competitor to divert, for his own or a third party's benefit, another clientele.

Because a trademark is a carrier of the reputation of a franchise in the market, it is understood that the goodwill of a unit single franchising belongs entirely to the franchisor who is the titleholder of the mark. The poor performance of franchisees may affect the concerned trademark, the image of franchisors thereby causing damages to the franchise network and other franchisees.

Franchising agreements hold in this regard stringent rules on trademark use. Among them, one can point out the franchisee's obligation to use the trademark and the concerned trade dress in the manner determined by franchisor so that all unit single franchise of a network look the same and transmit to consumers quality and product/service reliance. Moreover, the quality control of the products sold in a unit single franchise belongs entirely to franchisor, which is empowered by agreement to determine those products that will be sold in the store and the source of producers.

In order for a franchise to be valid and effective in Brazil, the Brazilian Franchise Law requires the compliance with the following obligations: (i) the franchise rights need to be granted in written and the agreement requires signature by the contracting parties and 2 witnesses; (ii) specification of the involved trademarks for the use of franchisee, which are applied for/registered at INPI; (iii) specification of franchisor and franchisee's rights, including remuneration, among others.³⁹

Further to that, the law determines the obligation of a franchisor to deliver to the perspective franchisee a document, the so-called Franchise Disclosure Document (FDD).⁴⁰ The FDD needs to specify the following items, as follows⁴¹:

1. Resume abstract, company structure and full name or commercial style of franchisor and all enterprises to which it is directly linked, as well as respective trade names and addresses;
2. Balance sheets and financial statements of the franchising enterprise relative to the last two fiscal years;
3. Precise indication of all litigations in which franchisor, the controlling enterprises and titleholders of trademarks, patents and copyrights relative to the operation and their subfranchisors may be involved, challenging specifically the franchising system or those which may directly become a reasons for the impossibility of functioning of franchising;
4. Detailed franchising description, general description of the business and the activities that will be performed by franchisee;

³⁹ Art. 6 and 8 of the Brazilian Franchise Law: "Art. 6 The franchise agreement must always be signed in the presence of two (2) witnesses and shall be valid independently of being registered before a public notary's office or a public agency. Art. 8 the provision of this law applies to the franchise established and operated within the national territory." Available at http://www.wipo.int/wipolex/en/text.jsp?file_id=205219. Access on September 29, 2015.

⁴⁰ The FDD is a document that comprises commercial and operation information about franchisor and the franchise network needed for a perspective franchisee to decide about investing in the proposed franchise network.

⁴¹ See Brazilian Franchise Law, art. 3. See http://www.wipo.int/wipolex/en/text.jsp?file_id=205219. Access on September 29, 2015.

5. Profile of “ideal franchisee” concerning previous experience, education level and other characteristics;
6. Requirement concerning the direct involvement of franchisee in the operation and administration of the business;
7. Estimated total of the initial investment, royalty rates and other required investments for the franchising installation;
8. Complete list of franchisees, subfranchisees and subfranchisors of the franchise network;
9. Information on the territory, including exclusivity and possibility to render services or realize sales outside the territory;
10. Clear information about franchisee’s obligations to acquire any real state, services or manufacturing components for implementation, operation and administration of its franchise from specific suppliers;
11. Indication of what is effectively offered to franchisee by franchisor concerning manuals, supervision, training and assistance;
12. Specification of the situation of the trademarks or patents the use of which is being authorized by franchisor before the INPI;
13. Situation of franchisee after expiry of the franchising agreement regarding know-how or industrial secrets that franchisee had access and possibility of franchisee to compete with franchisor and
14. Delivery of a model of the standard franchise agreement

The FDD needs to be delivered to the perspective franchisee at least ten (10) days before the execution of the franchise agreement or pre-agreement or the payment of any kind of fees by franchisee to franchisor or to an enterprise or person linked to it.

This obligation also binds international franchises in Brazil since Article 8 of the aforementioned law stipulates “the obligations under this law apply to all franchise system introduced and operated in the Brazilian territory”.⁴² Furthermore, the INPI requires evidence of the delivery of the FDD to Brazilian franchisees in order to record the Franchise Agreement and permit remittances abroad. Therefore, international franchisors are required to deliver the FDD to the local potential franchisees and most importantly, international franchisors are bound to the penalties specified by the law.⁴³

⁴² Brazilian Franchise Law, art. 8. See http://www.wipo.int/wipolex/en/text.jsp?file_id=205219. Access on September 29, 2015.

⁴³ The penalty for not complying with the delivery of the FDD and/or providing false information in the FDD is the possibility for franchisee to demand the annulment of the franchise agreement and the return of all amounts that have been paid to franchisor deriving from the operation of the franchising, including the initial franchise fee and the royalties. Franchisee may also request losses and damages in court caused by the non-compliance of the legal obligation. “Art. 4 – The Franchise Disclosure Document will be prepared annually by franchisor and should be delivered to the applicant at least 10 (ten) days before the signature of the franchise agreement or pre-agreement or the payment of any fees by franchisee to franchisor or to a company or person linked to it.” The Civil Code sets the statute of limitation for a person to initiate court proceedings. There are two different rules that may be related to the delivery of the FDD not in time to the perspective franchisee. For the annulment of the franchise agreement, franchisees may proceed in court within two years from the date of execution of the franchise agreement. See Civil Code, art.179.: “When the law

An important note is that trademark applications may generate royalties and remittances from franchise agreement, in view of the broader rights granted to franchisee, including the delivery of operational manuals, training, know-how disposal etc.

The same formalities in the patent/trademark licensing agreement should apply to franchising, as the parties and two witnesses should sign the agreement. The signature of the foreign party's representative should be notarized and legalized before the Brazilian Consulate. The parties and witnesses should further place their initials on each page of the agreement.

PATENT/TRADENAME AS COLLATERAL AND SECURITY INTEREST

Since patents and trademarks have become valuable assets to the competitiveness of companies, such intangibles have been increasingly used by business and court decisions as collateral to secure obligations.

For a security interest to be valid, following the Civil Code rules, it is required that the value of the debt is clearly provided, the debtor evidences the rights in the collateral to a secured debt and party and compliance with the formalities.

To perfect and enforce in Brazil a security interest agreement bearing a trademark or patent as collateral, the Industrial Property Law provides for the need to register any limitation or pledge on patent/trademark applications and/or patent granted/registrations.⁴⁴ The objective of registering the security interest is to place any interested party or businessmen on constructive notice that the pledge of the patent/trademark prevent any assignment or guarantee of other third parties.⁴⁵

This means that recordation of the pledge by the INPI will make the agency refuse to record assignments, mortgages, or any additional collateral specified as a security for the satisfaction of a debt.

provides that a given act is voidable, without establishing the period of time within which annulment must be claimed, the time period shall be two years from the date in which the act was conclude."To seek losses and damages due to the non-compliance of the FDD, it is secured to franchisee the period of ten years, as from the date of execution of the franchise agreement. See *id.*, art. 205: "Prescription occurs in ten years, unless the law has fixed a lesser period." Translation obtained from ROSE, Leslie. *The Brazilian Code in English*. 2nd. Ed. Rio de Janeiro. RENOVAR. 2012.

⁴⁴ The need to register the pledge before the public agencies and at the Registry of Titles and Deeds are provided by Article 1,432 of the Civil Code and "Art. 1,432. The instrument of pledge must be registered by either of the contracting parties; an instrument of common pledge shall be registered in the Office of Titles and Documents.

⁴⁵ The debtor is further required to proceed at the INPI to remove the recordation of the lien when the corresponding debt is adequately paid, as it is of its interest to do so and free the patent/trademark for further transactions. This statement is derived from the interpretation of Article 136 of the Industrial Property Law that establishes the general ruling for recordation of the trademark lien and Article 1,437 of the Brazilian Civil Code, as follows: Article 136. The INPI shall make the following entries: I. of the assignment, containing the full identification of the assignee; II. of any limitation or onus that applies to the application or registration; and III. of changes in the name, headquarter or address of the applicant or titleholder. 137. Entries shall become effective with regard to third parties beginning on the date of their publication. Translation obtained from the website http://www.wipo.int/wipolex/en/text.jsp?file_id=125397. Access on September 24, 2015. Article 1,437 – The extinction of the pledge produces effect after cancellation of registration is recorded, upon production of proof of extinction. Translation obtained from ROSE, Leslie. *The Brazilian Civil Code in English*. 2nd. Edition. Rio de Janeiro. Renovar. 2012.

The Industrial Property Law provides further a novelty in relation to the prior law, as it recognizes that recordation will be applicable to any kind of limitation, not only to those derived from the judge's authorities and decisions of government's authorities. With the new wording of Article 136 of the Industrial Property Law, any limitation on a trademark application or registration for example will be taken into account for recordation, including those privately agreed by the titleholder from commercial agreements, such as "Trademark Mortgage Agreement", "Security Interest Agreement," among others.

It is important to state that indication of trademark applications or registrations, as security for a debt does not exempt the applicant or registrant from complying with its obligation of maintaining valid and effective the involved trademarks. In fact, the applicant or registrant of the lien is placed as a trustee and therefore should hold the obligation to maintain the security in good order. The same ruling applies to the security of patent applications/granted.

In view of that, the applicant/titleholder is obliged to comply with its basic obligations, such as paying the official fees for registration and request the registration renewals during the legal period, among others. In case of patents, the payment of annuities is an obligation of the patentee.

Articles 1,431 to 1,472 of the Brazilian Civil Code deal with security interest as collateral for guarantees, as they determine that moveable things and rights may be offered and disposed to secure payment or performance of a contractual obligation. The basic requirements of the lien are that: the moveable thing becomes subject to property in existence and by law; the moveable thing is capable of conveyance to the creditor's possession following the peculiarities of the thing and the existence of a main agreement creating the credit.⁴⁶

It is important to highlight that "moveable thing" should also include intellectual works, since the Civil Code has eliminated the requirement of effective conveyance and possession of the collateral by the debtor. Accordingly, the effective conveyance of the chattel is dispensable and the "fictitious" transfer may occur by means of an agreement that secures the lien.

It is a common practice adopted by commercial banks and financing institution to accept products/goods as security for a debt and empower the debtor as a trustee of the product thereby maintaining with the debtor the pledge products/goods. This may apply to patents, trademarks and other intellectual works protected by intellectual property right.

Security interest in trademarks is usually affected in the form of a separate agreement or within the contents of a loan agreement, which should contain the following matters:

1. The nature of the loan or the main obligation that created the amount;
2. The precise amount of the credit, or its estimated value or total amount;

⁴⁶ DIAS, José Carlos Vaz e PITANGA, Daniel. Brazil in Trademarks in 42 Jurisdiction Worldwide. Editor in Chief Callum Campbell, 2010. Pages 20-25.

3. The time frame for payment of the credit;
4. The peculiarities of the secured patent/trademark, including the specification of the registration or application of the mark and the patent application/patent granted number and their title before the INPI and
5. Estimate value of the secured patent or trademark.⁴⁷

As to the formalities, the agreement needs to be signed by the parties and two witnesses. The signature of the foreign party's representative should be notarized and legalized before the Brazilian Consulate. The other party's signature should be notarized locally. The parties and witnesses should further place their initials on each page of the agreement.

ASSIGNMENT OF PATENTS/TRADEMARKS (PURCHASE AND SALE REQUIREMENTS)

Industrial property rights by means of patent/trademark applications and/or patent grant and trademark registrations may be subject to commercial sale by means of assignment to third parties, as they comply with the general requirements set out by Article 481 of the Civil Code, which are (a) the effective transfer of property rights to the buyer and (b) payment of the agreed price to the seller.

The Industrial Property Law complements this ruling by determining the recordation requirement of the assignment at INPI. This is due to the peculiar nature of patents and trademarks—intangible and immaterial—which does not permit the “physical transfer of the trademark to the seller.”⁴⁸ Therefore, the recordation of the assignment is viewed as evidence to third parties of the transfer of the industrial property rights to the buyer.

The validity of the assignment agreement between the contracting parties require execution of the agreement and the specification of the assigned marks and patents (applications or patent granted/registered). The specification of the involved price for the assignment is not required, since the transfer may occur free of charge.

It is understood that a trademark assignment needs to fulfill three independent stages to produce effects against third parties. The first one is the actual execution of the agreement. The second is the filing of the

⁴⁷ The requirements for the validity of a security interest are set by the combination of provision 1,424 of the Civil Code and the existing information in the Trademark Manual issued by the INPI, for example, by means of Resolution n. 142 of November 27, 2014 (<http://manualdemarcas.inpi.gov.br/>). Access on September 24, 2015: “Art. 1,424. Contracts of pledge, antichresis and hypothec shall state, on pain of inefficacy: I – the amount of the debt, its estimated amount, or its maximum amount; II – the term fixed for payment; III – the interest rate, if any; IV – the property given as security, with its specifications.”

⁴⁸ Articles 134, 135 and 137 of Law 9,279/96: 134. The registration application and the registration may be assigned, provided the assignee satisfies the legal requirements for applying to register it. 135. The assignment must comprehend all the registrations or applications, in the name of the assignor, for the same or similar marks, related to an identical, similar, or alike product or service under penalty of having the registrations cancelled or the unassigned applications dismissed 137. Entries shall become effective with regard to third parties beginning on the date of their publication.

assignment at the INPI for recordation purposes and finally the publication of recordation when assignment will effectively produce effects between third parties.

In practical terms, this means that the validity of a patent/trademark assignment agreement will commence with its execution by the contracting parties, not against third parties. Without the publication of the assignment at the Industrial Property Gazette, the assignee will not be able to defend its ownership on the assigned trademarks or initiate court proceedings against infringers that violate the industrial property rights. Further to that, BACEN will require the prior recordation of the assignment in order to authorize remittances of payment from the acquisitions of trademark applications/registrations.

Notwithstanding the publication requirement for the productions of effects before third parties, the Brazilian courts have accepted the legitimacy of the assignee in proposing court actions against third parties that infringe its rights derived from the assignment (secure the property rights and exclusivity to exploit goods and services and defend the assigned mark) with the filing of the assignment agreement at the INPI. This acceptance comes from the backlog of work faced now by the INPI, which can take up to 2 years for the recordal to be concluded. The local courts want to prevent INPI's delay on patent/trademark prosecution (including the recordation of assignment agreements) from affecting the enforceability of the aforementioned agreement and industrial property rights by assignee. (i.e. Possible damage that the assigned trademark may suffer from infringers.

Further to that, recordation is a formal requirement where the INPI will exam and confirm if the assignee holds the same activity of the class of goods/services of the mark, if the registration/application are valid and if the agreement complies with the formalities.

During the recordation proceedings, the assignor will be the responsible party for maintaining the validity of the assigned patent/trademark and responding for all debts related to the sold product.⁴⁹ Therefore, if the assigned patent/trademark is declared forfeited due to non-user or it suffers revocation proceedings, the assignor will take all requested steps to preserve the validity of the patent/trademark. The parties may stipulate that the assignee will lead all court proceedings in the maintenance of the validity.

According to Article 135 of the Industrial Property Law, the assignment must include all trademark applications or registrations in the name of the assignee involving identical or similar marks relating to a product or a service under the penalty of the cancellation of the registrations or the shelving of the unassigned applications. The rationale behind this rule comes from the need to prevent assignor from continuing the use of a similar trademark to the assigned one for the same activity. This would interfere with the objective of the trademark assignment, which is the transfer of the property rights to the buyer, encompassing the exclusivity in the market.⁵⁰

⁴⁹ See Art. 52 of the Civil Code ("Unless it is otherwise agreed, the seller is liable for all the debts that encumber the thing up to the moment of delivery").

⁵⁰ This rule does not apply to patents since the granted patent relate specifically to the protected invention.

Therefore, it can be stated that the assignment of a trademark may not be partial or limited (i.e. the authorization for one party to exploit a trademark linked to a product of one class and for another party another product of the same class).

In this matter, the assignment of a mark for the identification of specific products of a class is further prevented by Article 144 of the Industrial Property Law. This provision states that the use of a mark encompasses the products and services specified in the Registration Certificate. The use of the mark in part of the products may lead to the partial forfeiture of the registration with respect to those products or services not similar or akin to those of which use of the mark has been proved.⁵¹

It is also understood that assignment cannot be granted to different parties for different regions of Brazil, since the transfer of rights relate to applications/registrations filed/granted at the INPI, which has effect to the whole Brazilian territory.

It should be stated that the transfer of the rights over a patent/registration or /application does not in principle involve the assignment of the goodwill of assignor's business derived from reputation of the mark or the involved patent. The assignment will involve the property rights under the trademark registrations/applications, which are the exclusivity and the possibility to obtain profits from its use.

Nevertheless, the Industrial Property Law determines that a trademark not registered, but protected under the concept of prior use,⁵² may only be assigned if assignor's business or part of assignor's business that has links to the trademark is also transferred.⁵³

Articles 1.143 to 1.149 of the Civil Code provide the possibility of a trademark assignment together with the goodwill when assignor transfers also its commercial and industrial business to the assignee by means of an agreement so-called "Trespasse" ("Transfer of a commercial establishment")⁵⁴. In the "Trespasse", the business is assigned as a whole, intangibles, list of clients, the lease of where the business is located, credits, and debts among others.

⁵¹ Article 144, of Law 9.279/96: Article 144 - Use of the trademark must be made in respect of the products or services indicated on the certificate, under penalty of the registration being partially cancelled regarding the products or services that are neither similar nor related to those in respect of which use of the mark was proven.

⁵² Although the Brazilian trademark system adopts the First-to-File Principle, Paragraph 2 of Article 129 of the Industrial Property Law protects those trademarks that have been in use in good faith and for more than six months. Such protection comes under the title "right or precedence" to request the registration of the mark in use at the INPI.

⁵³ See art. 129, para. 2 of the Industrial Property Law. The stipulation of this rule comes from the concept that the use in the market of a mark not registered relates to small business where the trademark is embedded to the business run by the holder. In view of this understanding, it would be bizarre the transfer of a mark not registered to a third party without the goodwill generated by the mark.

⁵⁴ The Civil Code has created specific rules for the assignment of a business, including those applicable to assignee's and assignor's responsibility to pay the existing debts from the business and assure the payment of debtors. "Art. 1.145. If Alienor does not have sufficient assets to meet his liabilities, the efficacy of the alienation of the establishment depends on payment of all creditors or on the consent of such creditors, either express or tacit, within 30 days from their notification." "Art. 1.146. The acquirer of the establishment is liable for the payment of all debts prior to the transfer, provided that such debts have been duly entered in the accounts. The original debtor remains liable for a period of one year from the date of publication, with respect to debts that have fallen due, and from the due date, with respect to all other debts."

In view of that, the assignee will be prohibited to compete with the assignor for a period of five years as from the execution of the “Trespasse”. The violation of this obligation set out in Article 1,147 of the Civil Code is classified as unfair competition practice thereby applying losses and damages for such violation.

A strong evidence of unfair competition practice, in this matter, would be assignor’s attempt to the use, filing and attempt to register the assigned trademark or similar under the “Trespasse”.

In order for a patent/trademark assignment to be valid against third parties, the assignment agreement requires the prior recordation at the INPI. In practical terms, such recordation will be required for the assignee to proceed in court in defense of the assigned patents and trademarks and maintain the registration at the INPI valid and effective. Assignment to third parties will be effected as from the date the recordation is published in the Industrial Property Gazette.

The recordation is not required for the validity of the assignment between the parties, which takes place as from the execution of the agreement. Therefore, there are no penalties for not recording the assignment agreement at the INPI.

CONCLUDING REMARKS

It is clear the importance of patents and trademarks to the promotion of business developments and competitiveness of companies and society. This happens essentially by the fact that technological inventions are extensively used by companies to decrease transactions costs and make effective industrial production. It makes labor better educated and knowledgeable, make capital more related to the development of techniques, disposes land and raw materials in production more adequately. As a result, market imperfections may be reduced.

Further to that, notoriety and reputation of trademarks ease consumption and promotion of products/services in a market and foster selling of products and services attractive to the public by means of quality and price.

Above all and as clearly provided in this paper, patents and trademarks can generate and enlarge revenues to their titleholder by means of exploiting them as business transaction, which involve the execution of contracts with third parties for their direct exploitation. Licensing agreements, security interest agreement and sale (assignment) are good examples of transaction arrangements involving patents and trademarks.

Valuing the importance of intellectual works as business transaction, the industrial property law, the Civil Code and applicable legislation have created flexible rules to make intellectual works adequate subject matter for property and to economic exploitation despite their intangible nature.

This can be seen particularly in the case of security interest and licensing of industrial property rights where it was phased out the effective conveyance and possession of the collateral by the debtor to the creditor.

Moreover, patent and trademark licensing agreements are equaled to lease agreements, following the provisions of the Civil Code.

Therefore, patents and trademarks, and other intellectual works may be considered adequate matters for property rights thereby permitting the fulfillment of the economic attribute that compose the structure of property. The term intellectual property right is also adequately used to refer to protection and boundaries of the rights granted to the creation of the human mind.

Intellectual property rights also value the political attribute of property in the form of the “right to exclude others”, but this attribute alone does not encompass the essence of property nowadays, since property on a thing or right has the main objective to secure to the titleholder the right to exploit its creation and obtain revenue by business transaction.

Further to that, this article highlighted to foreign investors the various possibilities for exploiting intangibles as business transaction in the local market. An important focus should be given to licensing rights and franchising since they are the most used instruments for securing the exploitation of intellectual works and revenues in the form of royalties.

TRANSAÇÕES COMERCIAIS DE INTANGÍVEIS INTELECTUAIS: A CONFIRMAÇÃO E AS PECULIARIDADES DE UMA NOVA FORMA DE PROPRIEDADE

Resumo

O presente artigo aborda o questionamento doutrinário sobre os bens intangíveis intelectuais como elementos merecedores da tutela proprietária, pois existe o entendimento que esses bens (invenções tecnológicas, marcas etc.) apresentam falhas em sua natureza, que afastam a incidência da doutrina dos direitos reais e relevam o caráter essencialmente de exclusão de concorrentes. Ainda, a recusa em aceitar o caráter proprietário desses bens intelectuais transmite a ideia errônea de que a proteção pelo direito da propriedade intelectual objetiva garantir um monopólio e não a exploração efetiva do bem jurídico. Por outro lado, existem argumentos justificadores do caráter proprietário que envolvem os bens intangíveis intelectuais. Dentre eles está o aspecto estrutural patrimonial da propriedade, que assegura aos titulares a exploração direta ou indireta do bem jurídico intelectual, tal como ocorre com os bens materiais, para usá-lo, gozá-lo e usufruí-lo. O artigo abordará, neste sentido, o elemento econômico da propriedade e realizará, assim, o exame de 4 (quatro) transações comerciais para intangíveis: o licenciamento de marcas e patente, a franquia, o penhor mercantil e a compra e venda. Dentro dessa abordagem, serão analisados os principais aspectos jurídicos e as peculiaridades das referidas transações comerciais face à natureza imaterial e a tutela proprietária.

Palavras-chave: Propriedade Privada. Direito da Propriedade Intelectual. Licenciamento e Transferência de Tecnologia. Penhor Mercantil. Cessão de Marcas e Patentes.

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