Beware of Brazilian legislation when negotiating your R&D agreement

✓ Background

QTechnology is a Portuguese SME dedicated to selling computer software. The company, interested in improving one of its software products, contacted a Brazilian University, whose department of computing has established a strong reputation in artificial intelligence.

The company and the University concluded a R&D agreement, by which the University was in charge of performing research in the area of face recognition with the financial support of the company. In addition, the company provided the University with access rights over the source code and know-how of the computer software to be upgraded.

Six months later, the University informed QTechnology that they had made improvements on the face recognition system by modifying what existed and thus the program had become consistent and reliable. The University claims that the improvements are theirs and that they were already negotiating with a local institution to use this system.

QTechnology was puzzled since the section ‘use and exploitation of intellectual property’ of their R&D agreement establishes that the company would own the intellectual property rights of the project results. Moreover, the same section of the agreement clearly stated that the company had granted the University access rights to the computer system in face recognition for the purpose of carrying out the project, but not for other purposes.

Actions taken

The Portuguese company got in contact with a Brazilian legal expert, who informed them that according to local legislation, improvements of technology that have been transferred from abroad belong to the party that makes the development. Yet, it gives a preferential right to those that have transferred the technology.

After becoming aware of this, the Portuguese SME wanted to amend the agreement in a way that could block the University from using the improvements until they reached a new agreement. However, the legal expert rejected this option as national companies and institutions are protected in this sense by its technology transfer national law.

The IP expert suggested the SME use their preferential right over the improvements and then negotiate the use of the face recognition system directly with the local institution referred to by the University. Since these agreements involve the transfer of technology, they have to be registered in INPI and in the Central Bank of Brazil in order to:

- Ensure the validity of contracts against third parties
- Allow the remittance of payments abroad
- Permit the tax deduction of payments in connection with the agreement

Outcome

QTechnology and the University reached an arrangement whereby the University transferred the right over the improvements to the Portuguese company in exchange for a reasonable lump sum. On the other hand, the company, thanks to the mediation of the University, was able to conclude a license and technical support contract with a local institution that was interested in the software.

Considering the recommendations of the IP expert, the company registered both agreements with INPI and the Central Bank in order to avoid potential complications with regards to payments or enforceability, and to be able to benefit from any potential tax deduction.

With the complications and time wasted by choosing a Brazilian partner for improving the software, the company decided to disregard Brazilian partners for future developments.

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Lessons learned

1. Intellectual Property Rights are territorial. You should take into account the local particularities and regulations of the countries where you intend to move on to the market.

2. When doing business with international partners, it is necessary to consider not only the technical or economic aspects of the partnership, but also the applicable law, which might end up determining key elements of the collaboration, such as the IP ownership over the results.

3. Be aware that software agreement registration at INPI is not compulsory, unless it involves the transfer of the source code and/ or know-how. In such cases, registration at INPI Brazil ensures its validity against third parties.

4. Moreover, the approval by INPI of agreements involving Technology Transfer is a pre-condition for the registration of the agreements with the Central Bank of Brazil, which is required for:
   - the remittance of payments abroad
   - the tax deduction of payments
   - the tax deduction of an agreement with a foreign licensor