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IP Licensing Pitfall in Brazil: Brazilian Antitrust Authority Releases New Rule on Contracts Subject to Prior Approval

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A new resolution defining the legal concept of "associative contract", which was issued last year by CADE (Conselho Administrativo de Defesa Econômica) – the Brazilian antitrust authority – came into force in January 2015. According to the Brazilian current antitrust law (Law n. 12.529/2011), once other legal premises are met, such as annual revenue standards, "associative contracts" must be previously notified to and approved by CADE before being performed by the parties despite the fact that the Law does not clarify the meaning of "associative contracts". Therefore CADE's Resolution n. 10, dated October 29, 2014, is expected to eliminate the former legal uncertainty on which kinds of commercial agreements had to be submitted to CADE, a doubt that used to reach intellectual property licensing agreements.

Brazilian antitrust Law establishes that "acts of economical concentration" must be previously submitted to CADE's approval before coming into force whenever **(a)** the annual gross revenue in Brazil of one of the parties involved is of 750 million BRL or more and **(b)** the annual gross revenue in Brazil of the other party is of 75 million BRL or more.

In addition to these parameters, section 90 of the Law lists the strict cases which shall be considered "acts of economical concentration", the majority of which are related to mergers and acquisitions. Exception made to item (IV) which provides for the prior consent of CADE to "associative contract, consortium or joint venture" though without defining the meaning of "associative contract", which could reach several agreements with no repercussion on market competition.

The new resolution filled this blank by providing that associative contracts are those **(a)** whose term exceeds two years; which features **(b.1)** horizontal or vertical cooperation **or (b.2)** risk sharing and **(c)** which promotes a relation of dependency between the parties.

Also according to the new resolution, (b.1) horizontal (the one between direct competitors) or vertical cooperation (the one between agents of different levels of the same market chain, like the supplier-manufacturer relationship) **or** (b.2) risk sharing which (c) promotes a relation of dependency between the parties occur in the following cases:

(I) Contracts in which the parties are horizontally related in its subject matter and in which the sum of their market share is equal or superior to 20%; **or**

(ii) Contracts in which the parties are vertically related in its subject matter and in which at least one of them holds 30% or more

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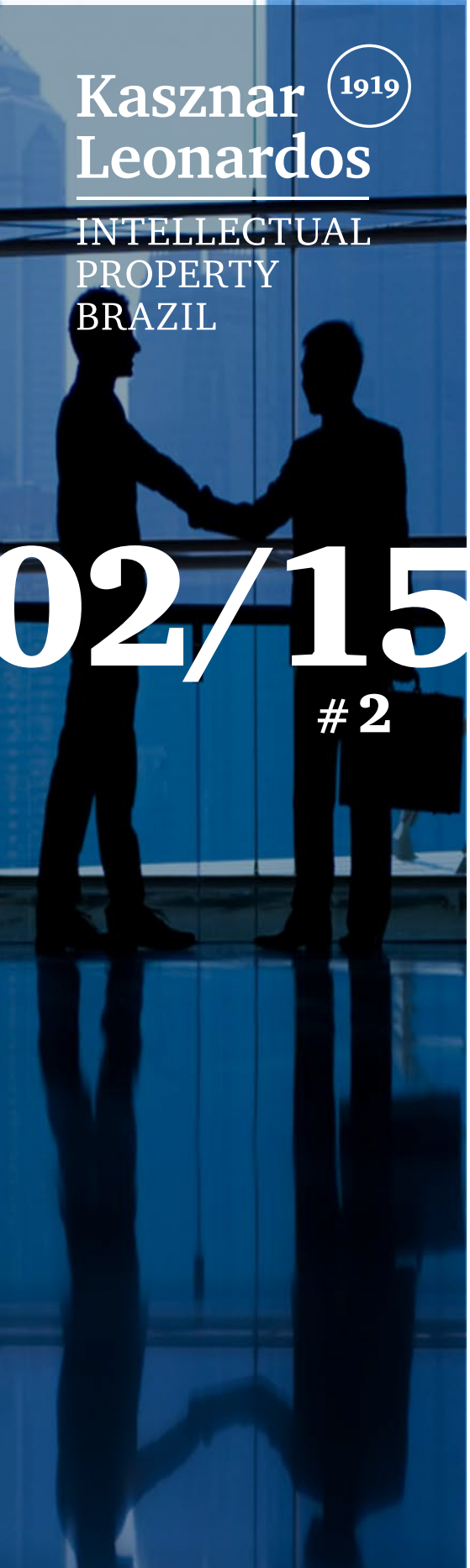
2



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of market share, if at least one of the following conditions is also met: 1) the contract provides for the sharing of revenues or losses between the parties; or 2) the agreement establishes provisions of exclusivity in the relationship between the parties.

Thanks to the new definition brought by the resolution, nowadays it is clear that some agreements involving intellectual property must be submitted to CADE's scrutiny, once the legal premises abovementioned are met. Hence, if the market share criteria is attended, a technology license agreement between a patent holder and a competitor or between the right holder and an exclusive supplier must be submitted to CADE, especially if it contains limitations on the competition between the parties, such as a territory restriction.

It is worth remembering that the current Brazilian antitrust act, opposite to its predecessor, expressly considers the possibility of undue use of intellectual property rights as a hypothesis of infringement of the economic system and that CADE's administrative court has already ruled several cases concerning technology license agreements which were voluntarily submitted to its review before the new resolution, in some of which the contracts were approved with no limitations and others with restrictions to avoid the licensor's excessive interference in the licensee's business.

The penalties in Brazil for the noncompliance with the antitrust legislation vary according to the gravity of the conduct. Among other, the law sets forth the following sanctions: nullity of the association contract, prohibition to contract with the Public Administration for at least five years, minimum penalty of 60 thousand BRL and a possible penalty of 0.1% to 20% of the annual gross revenue of the infringer.

For further information on this matter, please feel free to contact us, by writing or calling your usual contact in our office, or Gabriel Leonardos at Gabriel.Leonardos@kasznarleonardos.com.