

Trademark License Agreements (Brazil)

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A Practice Note discussing the key considerations when drafting, negotiating, and entering a trademark license governed by Brazilian law. It addresses formalities, the scope of the licensed rights (including exclusivity and most favored nation clauses), title and validity, and matters relating to the protection and maintenance of the licensed trademark. It also addresses royalties and taxation, risk allocation and termination.

A company's brands are often among its most important assets. Not only can brands help to differentiate a company's goods and services from its competitors in the marketplace, but they can also provide a valuable source of revenue through licensing. Trademark licensing is not without risk, however. A license agreement that does not contain adequate protections for the licensor can diminish the value of the licensed trademark or result in the licensor's rights in the mark being lost altogether.

The parties to a trademark license must tailor the agreement to reflect the circumstances of the arrangement. The format and scope of the agreement depends on a wide range of factors, including:

- The relationship between the licensor and licensee within the relevant marketplace.
- The purpose, value, and duration of the license.
- The type of products or services that the licensed trademark will be used in connection with, by the licensee.

This Note considers the key considerations when drafting, reviewing, and negotiating a trademark license governed by Brazilian law.

For an example of a jurisdiction-neutral trademark license, see [Standard Document, Trademark License: Cross-Border](#). For a checklist of the key issues to consider in relation to trademark licensing, irrespective of the governing law, see [Checklist, Trademark Licensing: Cross-Border](#).

To view and customize charts on trademark licensing across the full range of Global jurisdictions, see [Quick Compare Chart, Licensing Trade Marks](#), and for information on licensing intellectual property rights more generally, see [Practice Note, Licensing of Intellectual Property Rights: Cross-Border](#).

Overview of Trademark Licensing in Brazil

Trademark licensing is a common way for domestic and non-domestic trademark owners to exploit their trademark rights in Brazil. Trademark licensing can bring commercial benefits to both parties in the form of:

- Additional revenue.
- Territorial expansion or market segmentation.
- Sharing in the benefits of another's manufacturing, distributing, sales or marketing capacity.

- Enabling access to and use of new distribution channels.
- Strategic partnerships.
- Conversion of an actual or potential infringer into an ally.
- Increased consumer recognition of the licensor's brands.

Article 139 of *Federal Law No. 9.279/96* (known as the Industrial Property Law) provides that trademark licenses can be granted in relation to both registered trademarks, and also pending trademark applications. A trademark license is granted when the licensor grants a licensee the power to use and enforce a trademark.

Preliminary Considerations

There are a few preliminary considerations for both parties when entering a trademark license.

Licensing is one of the most important ways to monetize a trademark registration or pending application, whether on an exclusive basis with one licensee, or a non-exclusive basis with multiple licensees. Licensing can enable a trademark owner to broaden its distribution network, and to promote and commercialize its brands.

Depending on the parties' motivations for entering a trademark license, the agreement will need to establish clear parameters in relation to a number of factors including:

- The licensed territory (for example, national, regional, multi-regional, and so on). See *Identifying the Territory*.
- The licensed goods and services (for example, use of the licensed trademark in connection with all the goods or services listed under the registration, or only certain of them, with the others reserved for other licensees). See *Licensed Goods or Services*.
- The degree of exclusivity to be granted to the licensee in relation to their use of the licensed trademark. See *Degree of Exclusivity*.
- The licensee's ability to grant sub-licenses of the licensed trademark. See *Assignment and Other Dealings*.
- Quality control in relation to the licensed trademark. See *Quality Control*.
- Payments (for example, how and when the licensee should make payment to the licensor, and how the amounts due are to be calculated). See *Payment*.

There will be other provisions to consider, and mutual obligations to be placed on both of the parties, to ensure that the terms of the license work for all.

There will be various considerations for each of the parties, depending on the circumstances. The licensor will want to ensure that the licensee has sufficient financial resources to be able to pay royalties in accordance with the payment terms. The licensee will want to ensure that the licensor and its brand has a good reputation in the marketplace, as this could impact on the licensee's ability to sell licensed goods or services bearing the licensed trademark.

Both parties will also need to consider the potential impact of their license on competition in the relevant marketplace. *Federal Law No. 12.529/2011* (known as the Competition Act) grants decision-making power to the *Brazilian Antitrust Authority* (*Conselho Administrativo de Defesa Econômica* (CADE)). CADE has the power to investigate agreements, including trademark

licenses, which could be problematic from an antitrust perspective if, the trademark, and the promotion of the trademark, make it difficult for new competitors to enter the marketplace, representing a strong barrier to entry.

CADE might deem it necessary to suspend the offending trademark, to make room for competitors. Depending on the circumstances, the suspension could be for a determined period of time, or within a specific territory. CADE also has the federal administrative power to impose alternative remedies, such as:

- The compulsory licensing of the trademark for a determined period of time to new market entrants with less than 20% market share.
- The sale of the trademark.

The parties are free to challenge these remedies before the courts.

Formalities

Requirements Under Legislation

Certain formalities must be complied with for a trademark license to be valid and enforceable in Brazil.

The agreement must be in writing and executed by all parties. It is not possible to agree a valid trademark license verbally. The contract can be in any language, provided all the parties are fluent in that language. However, a Portuguese translation or bilingual version is always advisable.

A license agreement must include the following information:

- The details of the parties, such as name, address, company's registration number, and head office.
- The details of the trademark to be licensed, including the registration or application number.
- The goods and services in relation to which the trademark is being licensed.
- The license commencement date.
- The term and, if applicable, the termination date of the license.
- The territory of the license.
- The governing law and jurisdiction.
- The signature of each party.

(Industrial Property Law and the *Civil Code* (*Código Civil Brasileiro*) (Law No. 10406/2002).)

A trademark license can be validly executed on paper or, if expressly agreed by the parties in the terms of the agreement, in electronic form. The parties are free to decide on the license terms. There are no express or implied terms imposed by law.

Recordal

It is not necessary for a trademark license to be recorded at the *Brazilian National Institute of Industrial Property (Instituto Nacional da Propriedade Industrial* or INPI) for the purpose of validity or proof of use (Industrial Property Law). If, however, the parties wish for the license to take effect against third parties then it must be recorded with the INPI (section 140, Industrial Property Law).

Before 2024, trademark licenses also had to be recorded with the INPI and the Central Bank of Brazil (*Banco Central do Brasil*) if royalty payments were made under the terms of the license from a domestic licensee to a non-domestic licensor, or the licensee wished to qualify for any tax deductions that may have applied to royalty payments made under its terms. However, Federal Law No. 14.286/21 (known as the New Foreign Exchange Law) revoked the need to register licenses with INPI and the Central Bank of Brazil (new reading of Article 9 of Law 4.131/62 (known as the Foreign Capital Law) and revocation of its first paragraph) for authorization to remit royalties, establishing that the remittance abroad in the form of royalties will only depend on proof of payment, in Brazil, of income tax withheld at source.

For the purposes of recordal, trademark licenses must be executed by the parties and two witnesses, all of whom must have placed their initials on each page of the agreement. The parties' signatures must also be notarized and legalized by apostille, under the terms of the HCCH Convention Abolishing the Requirement of Legalization for Foreign Public Documents 1961 (*Apostille Convention*). These requirements do not apply to licenses that have been signed by the parties electronically.

All documentation must be submitted to the INPI electronically, including the trademark license and a Portuguese translation if it was originally drafted in another language.

An official fee is also required by the INPI, the amount of which depends on the number of trademark registrations and pending applications that are within the scope of the license being recorded. The recordal payment and filing can be made by either party.

The full terms of the license recorded with the INPI are not made available to third parties without a valid power of attorney. However, the INPI database makes essential information accessible to the public, which may include:

- The name and citizenship of each party.
- The sector and nature of the agreement.
- The main object of the agreement.
- The payment currency.
- Registrations and applications object of the agreement.
- The payment details.
- The term of the agreement.

The parties are free to exclude certain confidential terms before submitting the license for recordal if they wish to do so.

Recordal at the INPI takes around 30 to 60 days from filing to the issuance of the corresponding certificate, depending on the documents presented by the parties and whether the INPI publishes an office action.

The use of a registered trademark or a pending application by a related or an affiliate company (that is, another company controlled by, or under the common control of the company) does not require a license. However, it is advisable to present supporting documentation of the relationship between the parties to prove this connection.

Scope of the License

Degree of Exclusivity

In Brazil, there are three types of trademark license:

- Exclusive, under which only the licensee is permitted to use the trademark to the exclusion of all others, including the licensor.
- Sole, under which only the licensee is permitted to use the trademark, along with the licensor.
- Non-exclusive, under which the licensee is permitted to use the trademark, along with the licensor, and any other third party to whom the licensor might choose to grant a license to use the same mark.

Exclusive Licenses

Exclusive trademark licensees have greater rights than sole or non-exclusive licensees. This is because exclusive licensees are permitted to use the licensed trademark in the licensed territory, in connection with the licensed goods or services, to the exclusion of all others. Exclusive trademark licensees are not entitled to greater rights in the event of the mark being infringed, or threatened with infringement, unless the terms of the license expressly provide for this.

Exclusive trademark licensees are not necessarily placed under any greater obligations than sole or non-exclusive licensees, but the parties are free to include additional licensee obligations if required by the licensor.

Most Favored Nation Clause

Although it is not common practice in Brazil, the parties to a non-exclusive trademark license can include a most-favored-nation (MFN) clause in the license, restricting the terms on which the licensor can grant licenses to third parties to use the licensed trademark, either in or out of the licensed territory. These clauses are also referred to as parity clauses in Brazil.

CADE prohibits MFN clauses in the context of certain types of business relationships, on the basis that they can greatly reduce competition. If parties to a trademark license intend to include an MFN clause, then they must carefully consider its potential impact on competition in the relevant marketplace.

CADE is concerned to ensure that the terms of a trademark license do not reduce the incentives for competition between businesses operating in the same marketplace, to the detriment of consumers. CADE is also keen to ensure MFN clauses do not present obstacles to the entry of new competitors into the same marketplace.

Licensed Goods or Services

A trademark license can be granted for use of the mark in relation to some or all the goods or services listed in its registration or application. The scope of the licensed goods or services will depend upon the licensee's business, and the way the licensee plans to use the mark. It will also depend on the scope of any existing licenses the licensor has already granted to third parties in relation to the same mark, and on any use that the licensor intends to make of the mark itself.

It is possible for the parties to provide for modification of the licensed goods or services by agreement during the term of the license, to accommodate changes in the marketplace and to the scope of the licensee's business. It is also possible to limit

the license to only certain ways of using the licensed trademark in relation to goods and services. For example, a trademark license might be granted for use of the mark on particular goods or services but only within specific industries or market sectors (wholesale but not retail, or commercial but not residential, and so on).

The licensor can restrict the licensee's ability to sell goods and services outside an exclusive distribution system, for example, for luxury or prestigious goods and services.

The licensor can also restrict the licensee's ability to sell goods through e-commerce or social media platforms. Whether the licensee is able to accept such a restriction depends on the other platforms and channels available to it, within the licensed territory.

Identifying the Trademark

Brazilian law expressly states that trademark licenses can be granted in relation to registered marks, and marks that are the subject of a pending application (Article 139, Industrial Property Law).

Previously, it was not possible to charge royalties in relation to pending trademark applications as the INPI considered trademark applications as being mere expectations of rights, in exchange for which royalties could not be paid. This changed in July 2023, with the introduction of Ordinances [26/2023](#) and [27/2023](#). The INPI now recognizes that trademark applications have the same legal nature as the eventual right, and so applicants are entitled to enter into regular license agreements with third parties in exchange for royalties. When it comes to identifying a registered trademark for the purposes of a license, the licensee needs to conduct its own due diligence to confirm the validity, ownership, and ongoing maintenance of the relevant mark before entering into the license.

The INPI has a publicly available database of registered trademarks ([National Institute of Industrial Property: Database](#)). Searches can be conducted on this database to ascertain the following information about a registered trademark:

- The registrant.
- The date of filing and registration.
- The next renewal date.
- The specification of the goods and services in connection with which the mark is registered.
- Any other relevant information, including if the trademark is subject to any ongoing cancellation proceedings, or has any encumbrances recorded against it.

If any licenses have been granted in relation to the trademark, and they have been recorded with the INPI, then this will also be visible from a search of the register. However, it is not mandatory to record licenses (see [Recordal](#)), and so a prospective licensee should always make its own enquiries of the trademark owner if existing licenses will impact on its use of the trademark.

Although the database is public, as a matter of best practice the licensee should appoint a specialized trademark attorney to conduct the search to ensure that the results are accurate, and so that they can interpret them in accordance with the local law and the [INPI Trademark Manual](#).

For more on the registration of trademarks generally in Brazil, see [Practice Note, Trademark Registration and Maintenance: Overview \(Brazil\)](#).

Identifying the Territory

Trademark license agreements typically set out the geographical territory within which the licensee is permitted to use the licensed trademark. The territory might be limited to certain specified:

- Countries, such as Brazil.
- Regions or sub-regions of a country, such as the North or the South regions of Brazil (Brazil is divided into five regions).
- States, such as Bahia, or São Paulo (each region of Brazil is divided into States).

The licensed territory might be limited even further to specific areas within a Brazilian state:

- Mesoregions, such as Assis, or Bauru.
- Microregions, such as Ourinhos (in Assis), or Avaré (in Bauru).
- Municipalities, such as Fartura or Ipaussu (in Ourinhos), or Itatinga or Iaras (in Avaré).

If the parties wish to have flexibility to modify the territory during the term of the contract, to give flexibility to extend use of the mark into other territories, for example, then this should be expressly stated in the license terms, and any amendment agreed between the parties at the time.

The license must be clear in its description of the licensed territory, and of the permitted territorial scope of any promotional activity in relation to the licensed goods or services (such as newspaper and magazine articles), if not identical to the licensed territory.

When considering the appropriate scope of the licensed territory, both the assets and experience of the proposed licensee will be borne in mind by the licensor. Depending on the circumstances, of particular relevance might be:

- **Local knowledge.** If the licensee has experience of carrying out business in the licensed territory, or particular knowledge and understanding of the licensed territory, then it may be more likely to make a success of the license than if it were approaching the territory for the first time.
- **Distribution and manufacturing facilities.** If the licensee already has manufacturing facilities and distribution channels in place in the licensed territory, then it might be easier or quicker for the licensee to sell licensed goods and services in the licensed territory, giving the licensor a more likely return in the form of royalties.

Title and Validity

Ownership

As a matter of best practice, even though right and title in and to a trademark is not transferred by a license agreement, the licensor will want to include a clause in the license agreement by which the licensee acknowledges the licensor's ownership of the licensed trademark. This is usually acceptable to the licensee.

Warranties from the Licensor

Trademark licenses typically include basic warranties concerning:

- Each party's corporate authority to enter and be bound by the license terms.
- The licensor's ownership interest in or other basis for its control of the licensed trademark and ability to grant the license on the terms set out in the agreement.

Licensors are typically unwilling to provide any warranties in relation to the trademark's validity or enforceability, or a warranty that the licensee's use of the mark will not infringe any third-party rights. A licensee may be able to include one or more of these warranties subject to the licensor's knowledge at the time of entering into the license.

For those matters that the licensor is unable to warrant, the licensee should conduct its own due diligence to ensure it will have full enjoyment of the licensed trademark when it enters into the license.

If the licensee discovers any issues of concern, the options available to it might include reducing royalty payments, obtaining an indemnity from licensor, or not entering into the license at all.

See also *Liability, Indemnity, and Insurance*.

Challenging the Validity of the Trademark

Under Brazilian law, the terms of a trademark license can include an obligation on the licensee not to challenge the validity of the licensed trademark. A licensor will often insist upon including an express right to terminate the license in the event of the licensee breaching this obligation.

Depending on the relationship between the parties, the terms of a license may also include obligations on the licensee not to, whether during the term of the license or a post-term period determined in the agreement:

- Challenge the licensor's right to grant a license of the licensed trademark.
- Challenge the validity of the license.
- Challenge any rights of the licensor in and to the trademarks.
- Take or fail to take any action that impairs any of these rights, or the license itself, before the INPI or the Brazilian courts, as needed.
- Apply to register a trademark that is the same as the licensed trademark, whether during the term of the license or a post-term period determined in the agreement.

However, a contractual clause that limits the free and ample exercise of a given right, including a right to use a licensed trademark, can be considered abusive by a Brazilian court, in which case it will be void and unenforceable.

See also *Grounds for Termination*.

Use of Trademark Notices

The use of the registered symbol (®) for a registered trademark is optional, rather than mandatory, for registered trademark owners and their licensees (Article 5, D, *Paris Convention for the Protection of Industrial Property*). This means that there are no legal consequences if notices are not used unless a term of the license obliges the licensee to adopt them.

Use of the ® symbol is not permitted if the trademark is not properly registered or while the trademark is pending examination by the INPI.

Goodwill

Although there are no specific provisions in Brazilian law relating to goodwill, it is recognized as a legal concept in relation to trademarks.

As a matter of common practice, goodwill derived from use of a licensed trademark is always deemed to automatically accrue to the licensor, as the legitimate and exclusive owner of the trademark. This principle derives from Article 113 of the Civil Code.

However, as a matter of best practice, and for the avoidance of doubt, it is always recommended that the parties set out their intentions in relation to goodwill, expressly in the terms of the license.

It is not common for licensors to request confirmatory assignments of goodwill from licensees in Brazil.

Protection of the Trademark

Registrations by the Licensee

The INPI does not grant registration to identical or similar trademarks on behalf of different owners for the same or similar goods and services. However, for certainty, the licensor might choose to insert an express provision into the license to this effect, restricting the licensee from applying to register a trademark that is the same or similar to the licensed trademark, especially in the licensed territory, or anywhere at all, during the term of the license.

Whether the licensee accepts this depends on their future intentions in relation to the licensed trademark, and other marks, and the parties' respective bargaining powers.

For more on registration generally, see *Practice Note, Trademark Registration and Maintenance: Overview (Brazil)*.

Quality Control

Compliance with Licensor Directions

When entering into a trademark license, a licensor will be concerned to ensure that the licensee's use of its mark is consistent with the licensor's, so that the consumer receives the same quality of goods or services in connection with the licensed trademark, irrespective of where or from whom those goods or services are purchased.

Consistency is also important to ensure that the licensed trademark is used in the format in which it is registered, and in connection with the specific goods or services for which it is protected. If it is not, then the trademark could be at risk of revocation or forfeiture on the ground of non-use. See *Use of the Trademark*.

The licensor can ensure that the integrity of the trademark is maintained during the term of the license by including express quality control provisions in the terms of the license. By monitoring and policing the licensee's compliance with such provisions, through regular audits and inspections, and requests for samples, the licensor can manage the nature and quality of the goods or services sold by the licensee in association with its trademark. See [Samples](#) and [Audit and Inspection](#).

Compliance with Applicable Laws

By including an express provision in the agreement, the licensor can require the licensee to comply with all applicable laws, regulations, industry standards, and codes of practice. This might be particularly important for the licensor where its trademark is to be used by the licensee in product areas that are heavily regulated (such as food and beverages, for example), or in relation to which the licensee has little or no experience or expertise.

Samples

Depending on the type of goods bearing the licensed trademark, and the extent of the licensee's experience in the marketplace for those goods, it is common for the licensor to insert terms into the license agreement requiring the licensee to provide samples of goods and (if applicable) promotional and other marketing materials bearing the licensed trademark. There will be considerations for each of the parties in relation to costs associated with the production of samples. The parties will also want to agree clear terms on which the licensor is entitled to reject samples.

Licensor Control over Proceedings

The parties are free to decide who will deal with any legal proceedings relating to the licensed trademark.

The licensee can be given the right to enforce the trademark, by bringing and defending legal proceedings in relation to the mark, provided that this is set out expressly in the terms of the license, and the license is recorded with the INPI. Such powers are without prejudice to the licensor's own rights (Article 139, Industrial Property Law).

With regards to notification obligations, the parties can agree that the licensee is obliged to notify the licensor of any attack, charge, claim, or lawsuit against or in relation to the licensed trademark. In addition, the licensee is usually obliged to notify the licensor of any known or suspected third party infringement of the licensed trademark. In this case, the parties can agree on who will be responsible for defending the licensed trademark from infringement.

These notification obligations can be mutual, so that they apply to both parties, provided that this is expressly set out in the terms of the license agreement. If the licensee becomes engaged in defending the licensed trademark, then it is common for the licensor to adjust the royalties payable by the licensee during this time in response. A licensee will want to ensure that the terms of the license expressly provide for this from the outset.

See also [Degree of Exclusivity](#).

Maintenance of the Trademark

Use of the Trademark

If a registered trademark is not used in the form in which it is registered for five consecutive years, and there are no legitimate reasons for that non-use, then third parties can challenge it on the ground of non-use, and it can become vulnerable to revocation or forfeiture (Article 143, Industrial Property Law).

As for what constitutes use for this purpose, physical evidence of the trademark being affixed to, or used in connection with goods or services that are promoted, distributed, and sold within the jurisdiction during the investigation period (being the five-year period during which the registration is being challenged on the ground of non-use) will suffice. For this, the licensor might produce:

- Written confirmation of distribution (perhaps in the form of distribution agreements with third parties).
- Advertising material relating to the launch and sale of goods or services bearing the trademark.
- Invoices for the purchase of raw materials or components required to make up the goods bearing the trademark.
- Labels that have been affixed to goods bearing the trademark and circulated during the investigation period.

The reasons for non-use that would be considered legitimate depend on the circumstances, but would typically include:

- Regulatory issues preventing use of the mark (most relevant in the pharmaceutical sector).
- Import and export controls around the product to which the trademark is to be applied and the raw materials used in the manufacturing of the specified product.
- Pending administrative and court nullity actions.

If the licensor can show that any of these reasons exist, then the registration will not be revoked or forfeited (Article 143 (§1°), Industrial Property Law). A licensor can compel a licensee to use the licensed trademark by including an obligation in the terms of the license requiring the licensee to use the mark within a prescribed timeframe, and by making a breach of this obligation a ground for termination of the license.

It is also advisable for the licensor to oblige the licensee to maintain accurate records to evidence its use of the licensed trademark including reports, invoices, samples of merchandising and promotional materials, and so on. This will ensure that, if challenged, the licensor is able to produce evidence of the trademark being put to use.

For more on proper use of a registered trademark, see [Practice Note, Trademark Registration and Maintenance: Overview \(Brazil\): Proper Trademark Use](#).

Renewal

Although the parties are free to choose, it is most common for the licensor to be made responsible for maintaining the registration of a licensed trademark, including paying the renewal and other applicable fees. The non-payment of registry fee for a registered trademark can result in its cancellation.

For more on the maintenance of registered trademarks, see [Practice Note, Trademark Registration and Maintenance: Overview \(Brazil\): Maintenance of the Trademark Registration](#).

Payment

Royalties

The most common payment structure for a trademark license is to provide for an upfront fee and an ongoing royalty payment. In some cases, an upfront fee is paid and then set off against future royalties that become due. If royalties to be paid exceed

the upfront fee, then the excess amount must be paid by the licensee on an agreed periodic basis throughout the term of the license (so monthly, quarterly, or annually, for example).

The royalty is usually calculated as a fixed percentage of either the net profit or sales, or the gross profit or sales, achieved from the licensee's sales of the goods or services bearing the licensed trademark in the licensed territory. Factors that might influence the percentage royalty rate that the parties agree on include:

- The size of the licensed territory. The licensor might take the view that the larger the territory, the greater the licensee potential to generate sales of the licensed goods and services, and so the higher the royalty rate should be.
- The extent of any competition in the licensed territory that might limit the licensee's sales of licensed goods or services. If there is strong competition in the marketplace likely to limit the licensee's ability to generate sales, then this might encourage the licensor to accept a lower royalty rate.
- The degree of exclusivity granted to licensee. An exclusive licensee is likely to be charged a higher royalty rate than a sole or non-exclusive licensee on the basis that they are the sole source of royalty income for the licensor in relation to the licensed trademark.
- The length of the initial license term and provisions for renewal. A shorter-term license might have a higher royalty rate applied to it, on the basis that the licensor needs to maximize its potential to generate revenue from the license in the short term that it exists. A longer-term license might encourage greater patience on the part of the licensor and so apply a lower royalty rate.

Royalties can be charged by a licensor in relation to pending trademark applications and registered trademarks.

Since 2023, it is not mandatory to record a written trademark license with the INPI before royalty payments are made from Brazil to a licensor based in another jurisdiction. However, recordal of the license is still necessary for the licensee to benefit from applicable tax deductions.

Considering currency depreciation, it is advisable to provide for currency conversion if the licensee is domiciled in a different jurisdiction.

The parties can choose the extent of financial reporting to be carried out by a licensee depending on the terms of the agreement, type of business of the parties, and frequency of payments, which usually vary from monthly to quarterly.

The licensor can permit the licensee to grant sub-licenses of the licensed trademarks, and the parties are free to discuss how sub-licensing might impact on the royalty terms in the license.

Taxation

Under Brazilian law and tax regulations, there are some specific guidelines that the parties must comply with.

Payment for trademark licensing is subject to the following taxes in Brazil:

- 15% Withholding Income Tax.
- 10% Contribution for Intervention in the Economic Domain.
- 0.38% Tax on Financial Operations on foreign exchange.

In addition to these taxes, the Municipal Tax on Services is imposed, at rates ranging between 2% and 5%, depending on the municipality where the licensed company is located. Overall, the tax burden can be as high as 40%.

In June 2023, Brazil enacted a new transfer pricing law (*Federal Law No. 14.596/2023* (known as the Transfer Pricing Law)). This law has optional applicability in 2023, but its provisions become mandatory from 2024.

The Transfer Pricing Law brings Brazil's transfer pricing rules closer in line with those of the *Organization for Economic Cooperation and Development*, with special implications regarding royalties on international operations between related parties. The Transfer Pricing Law follows international guidelines and the arm's length principle, including in the context of trademark licensing. The law also expands the meaning of related parties, including a broad range of types of business arrangements that fall within this category.

The following factors are relevant in an assessment of whether the terms of a trademark license are at arm's length:

- The contractual terms of the transaction, derived from the written agreements between the parties, and their conduct toward one another.
- The functions performed by the parties in relation to the licensed trademarks, and the economically significant risks assumed by each of them.
- The specific characteristics of the licensed goods or services.
- The economic circumstances of the parties and the market in which they operate in relation to the licensed trademark.
- Business strategies and other characteristics considered economically relevant.

The next step is to compare the terms of the license with those typically entered into between unrelated parties in a similar scenario, to assess whether the arm's length principle is complied with.

In addition to the arm's length principle, the Transfer Pricing Law introduces a clear definition of intangible assets, including trademarks, for the purposes of transfer pricing, and sets out the development, enhancement, maintenance, protection, and exploitation concept as a basis for valuing trademarks.

The Transfer Pricing Law also provides a definition of intangible assets that are difficult to value, that is, intangible assets for which:

- It is not possible to identify a reliable comparator at the time of their transfer between related parties (which, in the case of a trademark license, will be at the effective date of the license).
- The projections of future income or cash flow, or the assumptions used for their assessment, are highly uncertain. Trademarks falling within this definition must be considered for valuation by the *Brazilian Federal Revenue Office (Receita Federal do Brasil (RFB))* (Transfer Pricing Law).

The advice of a local tax specialist should always be sought when entering into and negotiating the terms of a trademark license.

Audit and Inspection

It is common for the licensee to grant the licensor rights of audit and inspection for:

- Assessing whether the correct royalty payments are being made during the term of the license.
- Quality control of the products or services, and the licensee's facilities, systems, and processes, depending on the way in which the licensed trademarks are being used.

The parties are free to determine the frequency of the audits and inspections, which depends on the duration of the trademark license, but it is most common for them to take place annually during the license term. This should be expressly set out in the terms of the license.

It is also important that the license states which of the parties will be responsible for any costs associated with the audits and inspections, or if they are to be shared between them. The parties also need to agree upon the identity of the party permitted to carry out the audits and inspections. They might wish to appoint an independent consultant, and so the process by which that appointment will be made should be agreed at the outset and set out in writing in the license terms. In the case of financial audits, the parties may also wish to agree on a margin to be applied to take account of accounting errors. It is also common to provide that in case of errors being reported (beyond the accepted margin, if any), the defaulting party must bear the audit costs.

Liability, Indemnity, and Insurance

The *Consumer Protection Code* (*Código de Defesa do Consumidor*) (Law No. 8,078/1990) provides that the supplier of products and services (which includes all entities within the relevant supply chain) is responsible, regardless of fault (which includes the fault of a trademark licensor and licensee), for providing the necessary reparations for any damage caused to consumers due to:

- Defective products or services.
- Insufficient or inadequate information about the nature of the products or services, and the risks involved.
- The failure of the provision of the products or services.

Insurance clauses are commonly included in trademark licenses to protect the licensor in the event that the licensed products or services are defective, or the licensee otherwise incurs some form of liability for which the licensor may be fully or partially held liable to third parties pursuant to the Consumer Protection Code.

The insurance provisions of a trademark license typically require the licensee to obtain board enough insurance coverage to protect both the licensee and the licensor against third party product liability claims. The insured amount will depend on the goods or services provided by the licensee in connection with the licensed trademark, as well the activity of the parties. It is also common for the licensor to require the licensee to obtain business interruption insurance to ensure that the licensor continues to receive payment under the terms of the license in the event of any interruption to the licensee's business.

Licensee indemnities are also commonly included in trademark licenses, by which the licensee (or its guarantor) agree to indemnify the licensor for any liability that it may incur as a result of the licensee's use of the licensed trademark, including product liability. The parties can also agree on an express cap on liability, although express caps can be challenged by the courts in certain circumstances.

Additional Licensee Obligations

The parties can agree on additional obligations that might be placed on the licensee in certain circumstances, depending on the nature of their relationship, and the goods or services to be provided in connection with the licensed trademark.

For example, the parties might agree that the licensee is responsible for:

- All costs and expenses related to the manufacture, distribution, sale and dissemination of the goods or services.
- All costs and expenses arising from licensor audits of the licensee facilities, if required under the terms of the license.
- The provision of specific information in relation to stock, sales (categorized in a prescribed manner depending on the range of goods or services to be provided in connection with the licensed trademark), production and quality inspections, all at agreed intervals throughout the terms of the license.
- Evidence of the licensee's use of the licensed trademark during the term of the license.
- (Along with the licensor) compliance with all applicable laws and regulations including in relation to:
 - labor, employment and social security;
 - product liability and consumer rights and protections;
 - environment; and
 - tax and contribution.
- The maintenance of relevant licenses from public, state or federal agencies in accordance with their applicability. The licensor will want to ensure that they are exempt from any liability in this regard. See *Liability, Indemnity, and Insurance*.

Assignment and Other Dealings

The licensor can assign, charge, or otherwise deal with its rights under the trademark license. The licensor can also authorize the licensee to assign, charge, sub-license, sub-contract, or otherwise deal with its rights under the trademark license.

For each of the parties, though, the right to deal with the licensed rights is not automatic under Brazilian law, or implied into the terms of the trademark license. Instead, the license must expressly grant the rights for them to take effect.

Although there is no obligation by law, the parties might agree to include a term in the license requiring each of them to notify or obtain the consent of the other before carrying out any of the above actions in relation to the licensed trademark.

Grounds for Termination

A termination clause sets out the parties' respective rights to terminate and is determined by the parties on a case-by-case basis, depending on the circumstances and purpose of the license.

The grounds on which a party can terminate a trademark usually include:

- Breach of the contractual terms of the license agreement, including payment and quality control obligations.
- Bankruptcy or insolvency or change of control of the other party.

The parties are free to agree on applicable notice periods or other formalities that they must comply with, and the consequences for each of them in the event of a failure to comply.

In certain circumstances, provided it is set out expressly in the terms of the license, then the licensor can terminate, even without cause.

Termination can also be automatic, on the expiry of the original term, or the exhaustion of all renewal periods.

See also *Practice Note, Terminating Licenses of IP Rights (Brazil)*.

Consequences of Termination

It is usual for the licensee to agree that certain obligations will survive termination of the license, regardless of the reason for termination. The clause numbers of the surviving obligations are typically set out in the termination provision, and usually include obligations relating to some or all of the following:

- **Confidentiality.** The obligation to maintain the confidence of any information disclosed by the licensor to the licensee for the purposes of the license agreement, to the extent that it is not already in the public domain.
- **Non-compete.** The obligation not to compete with the licensor, usually in relation to certain products or services, or a particular marketplace, for a prescribed period of time after termination.
- **Use of the licensed mark.** The ongoing use of the trademark by the licensee for a prescribed period after termination. This might be necessary to enable the licensee to sell or dispose of any remaining stock bearing the licensed trademark, for example.
- **Royalties.** The obligation to pay any remaining royalties that fall due before termination, but that remain unpaid on termination.

Any indemnities relating to the performance of the licensee during the term of the license would also survive termination of the license, ensuring the licensor can enforce that indemnity in the event of a contractual breach resulting in termination of the license, or the discovery of such a breach after expiry of the license term. See *Liability, Indemnity, and Insurance*.

It is also usual for the licensee to be obliged to return any licensed documents, information and software to the licensor on termination.

In case of termination, the parties must cancel any records of the license at the INPI and other national registers or offices.

For more, see *Practice Note, Terminating Licenses of IP Rights (Brazil)*.

Antitrust Considerations

Antitrust considerations relating to trademark licensing must be evaluated on a case-by-case basis. However, consideration must be given by both of the parties to the Competition Act when negotiating and concluding trademark license agreements, and specifically to whether the effect of the license might give rise to unfair competition or market disruption. This may be the case if, due to the license being in force, a competitor is removed from the relevant market, or price fixing within that market is somehow enabled. These practices would contravene the Competition Act, resulting in the license being considered null and void, and the parties being subjected to a fine.

An agent (that is, a company or group of companies) is presumed to have market power, and therefore exercises a dominant position, when it controls 20% of the relevant market as a supplier, intermediary, acquirer, or financier of a product, service, or related technology (Article 20, paragraphs 2 and 3, Competition Act).

Licensing Provisions Specific to Coexistence Agreements

Trademark coexistence agreements (also known as "letters of consent") are frequently used and agreed by local and foreign parties.

When considering a pending trademark application alongside an earlier registration for the same or a similar mark, the INPI will take into consideration any coexistence agreement already in place between the applicant and the registrant of the earlier mark. Coexistence agreements can serve as written evidence of the parties' intention for their marks to coexist in the same marketplace (*Technical Opinion No. 01/2012*), which might give the INPI sufficient comfort so as to rule out the possibility of confusion arising between the marks.

If, however, the INPI is concerned that, even with a coexistence agreement in place between the parties, there remains a real risk of the public confusing their two marks, because they are the same or similar, and will be used in connection with the same or similar goods or services, then the INPI can issue an office action to the applicant, restricting the scope of their application, so as to avoid the risk of confusion between the marks. An office action can also be issued to the registrant of the earlier mark, excluding the conflicting element from the scope of their registration, provided that this is viable and the distinctive character of the mark is preserved in accordance with the INPI guidelines.

END OF DOCUMENT
