

LATIN AMERICA IP SME HELPDESK

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IP Licensing in Latin America



1. Licensing: the best way to expand your SME into Latin America

SMEs are increasingly seeking to expand their businesses around the globe. Because the region offers many opportunities in terms of trade concessions, many SMEs look at Latin America as a relevant market and a possible place to diversify dealings.

There are many ways for an SME to exploit its intellectual property rights (IPRs) abroad. Since opening a local subsidiary is not always viable, IP licensing is one of the most effective and secure ways to broaden IPR exploitation.

IP licensing consists of one or more agreements (licensing agreements) in which the IPR owner (licensor) allows the licensee to exploit the IPR in the region in exchange for royalties.

IP licensing differs from selling IPRs in many ways. For instance, licences can be revocable and the licensor can choose the level of control they want to exert in the new local business.

Compared to other strategies for exploiting IPRs in Latin America, IP licensing is one of the cheapest and safest, because:

- it makes it easier to gain experience and knowledge about the market by interacting with local companies;
- there is a reduction of the costs and risks related to direct intervention;
- it enhances the trust between producer and consumer, since the authenticity of the product is certified;
- it allows channel diversification, for example, a beauty brand that expands from cosmetics to food supplements.

Simply put, from a business perspective, IPR licensing is an inexpensive way of reaching new markets, which allows enough means of control to guarantee a certain level of quality, but not so much as to make it too expensive.

copyright

Compared to other strategies for exploiting IPRs in Latin America, IP licensing represents less reputational risks than distribution agreements with local partners, even though the former requires more investment. With regard to franchising, which can also be a very useful strategy for entering the Latin American market, IP licensing requires less investments and involvement in the local business.

TIPS and WATCH OUTS

Brazil is the country in which franchising is most extensive, with around 1 800 operational franchises. It is closely followed by Argentina and Chile.

2. What to do before licensing

A. The importance of a pre-licensing advisory service

As a preliminary step, it is advisable to conduct an economic feasibility study on the possibility of placing the product or service on the market, as well as an analysis of the legal requirements to enter the market (marketing authorisations, registrations, taxes etc.).

Successful licence negotiation implies that all IP aspects of the SME (products and services) are taken into account when designing the draft contract. In addition, it is important to make an adequate assessment of the asset. This will establish the amount payable for the licensing fee or royalty.

It is advisable to perform due diligence (see Glossary) regarding the IP rights to be licensed, as well as basic information such as the name of the right holder, the expiry date for patents and designs, and their status (active, renewed, expired).

Moreover, **choosing the right type of licensing contract**, depending on the specific business conditions, is essential: distinctive signs may be protected by means of a trade mark licence. If the object to be protected is an invention or technical knowledge, then a patent licence or 'know-how' licence should be used.

There are also different types of licences depending on the scope agreed on by the parties. The licence may be either **exclusive or non-exclusive**, it can cover only **one territory or several territories**, only **one product or a whole product line**, etc.

It must be emphasised that it is always recommended that a prior search or due diligence should be performed to determine if the object of the licence is available in the country where the agreement will take place. Furthermore, some IP rights are limited in time (e.g. patents and industrial designs) so it is essential to check if they are still valid. Some other rights, such as trade marks, are subject to renewal every 10 years. Therefore, this should all be taken into account when licensing an IP right.

A licensing contract can be a part of a main contract, such as a joint venture or a franchise agreement, but it can also be ancillary to another contract, for example: non-disclosure agreements or technology transfers.

When are ancillary agreements more interesting? Mostly in patent licence contracts (pharmaceutical patents, chemical patents, mechanical patents, etc.).

TIPS and WATCH OUTS

Local advice is essential for SMEs, especially while drafting the contract and performing due diligence. A specialised local law firm can analyse all the relevant factors for this contract.

Latin America IP SME Helpdesk offers free of charge, confidential, first-line support on these matters. Our experts will be pleased to answer all your questions, whether you are taking the first steps into the Latin American market or you already have years of experience.



B. Choosing the right licensee

It is extremely important to know the licensee. Eligible licensees are enterprises that are likely to successfully manage the business.

TIPS and WATCH OUTS

Before signing a contract, it is necessary to examine the licensee in order to assess whether:

- they have expertise;
- the products or services that they provide or produce may be complementary or competitive regarding the products to be licensed;
- they are capable of introducing the product or service into the market;
- they have current or potential clients that may be interested in the products or services to be licensed;
- they are familiar with the distribution channels;
- the enterprise is prestigious in the target market;
- no problem has been reported regarding the enterprise and its previous experience as a licensee;
- they are compliant with local and international regulations.

It is common for licensees in these territories to use a licensed trade mark on a lower quality product. There are two types of clauses that can help prevent this:

- **Quality control clause:** aimed at checking compliance with the conditions that have already been agreed.
- **Penalty clause in the case of failure to meet the requirements:** it discourages the licensee from breaching the contract and ensures the right to compensation if the contract is eventually breached.

C. Developing a strategy to protect intangible assets through intellectual property rights (IPRs)

The products and services to be licensed include some intangible assets (know-how, distinctive signs, etc.) that may be subject to protection even if the enterprise is unaware of this fact. It is advisable to contact an expert who can evaluate these assets and provide some advice regarding the process of international exploitation.

TIPS and WATCH OUTS

Before signing a licensing contract, it is advisable to contact an advisor if a third party in the country has already protected the intangible assets. The result of this search will be the subject to a written report, commonly called 'freedom to operate' (FTO).

By means of FTOs you will know, for instance, if your trade mark has already been registered, or if a former partner from your graphic design studio sold the rights to the characters of a cartoon series, which did not belong to them.

Examples: Apple found out that the trade mark 'iPhone' had already been registered in Brazil. Moreover, in Colombia the cosmetics brand 'Sisley Paris' had a dispute with a local brand for clothing that had previously registered the trade mark in the territory.

In these cases, you can choose to:

- contact a lawyer and decide whether it is necessary to bring legal proceedings. Apple made this decision and won;
- negotiate with the current holder: it is possible to buy the trade mark or to sign a coexistence agreement;
- pursue a cancellation action, if the trade mark is not being exploited in the territory.



3. Licensing contracts: some useful advice

Civil or commercial law in Latin America traditionally regulates licensing contracts. However, depending on the country, this type of contractual agreement can be either specifically regulated (typical) or non-specifically regulated (atypical).

This means that, depending on the type of legal rules applicable in the country, the licensing agreement will be subject to some particular provisions (length, mandatory recordal, etc) or just the will of the contracting parties.

Specific law on licensing contracts (typical contract):

In this case, you should take into account whether the parties wish to include provisions that are new or different to the ones provided for by law. For example:

- exclusivity of the licence. In Uruguay, Brazil, Argentina and Paraguay, the licence is presumed to be non-exclusive, unless otherwise agreed;
- price of a trade mark licence. For example, in Brazil, the price for the use of a trade mark of which the technology is not transferred should not exceed 1% of the sales of the licensed products, unless otherwise proved;
- duration of the licence. The duration is normally the same as the one of the IPR that they refer to. Nevertheless, specific time limits may sometimes be set. In the specific case of Paraguay, exclusive licensing contracts may last up to a maximum of 5 years;
- quality standards of the products manufactured under a licence. For example, trade mark law in Paraguay states that, in order for a licensing contract to be registered, it must include provisions that enable the right holder to monitor the quality of the licensed products or services;
- in the Andean Community countries (Peru, Colombia, Bolivia and Ecuador), trade mark licences and transfers have a common regime under Andean Decision 486/2000, which states in particular that the licence must be submitted in writing and has to be registered before the trade mark office to be enforceable before third parties.



In Colombia, the holder of the trade mark must effectively monitor the quality of the products or services and is responsible for any potential damages caused to third parties.

In Argentina, there are no regulations for quality standards in relation to products manufactured under a licence. However, there are some rules that prohibit the use of clauses to regulate the commercialisation, production and technological development by the licensee.

In Brazil, the law sets out that the licensor must expressly authorise the licensee in order for them to use their own trade mark together with the licensor's trade mark and the advertising campaign.

Moreover, in Brazil, the registration of the licence agreement entails tax reduction, fixing of royalties and makes the contract enforceable against third parties. Other regulations in different Latin American countries do not explicitly address this subject. However, parties can agree on this and other topics.

Non-specific laws on licensing contracts (atypical contract):

The fact that the contract is atypical does not constitute an obstacle for its closure, but it involves additional efforts.

TIPS and WATCH OUTS

If the licensing contract is atypical, it must be drawn up as comprehensively as possible and include the subject matter of the contract, obligations of the parties, costs, payment terms, general terms, territorial scope, exclusivity, liabilities, breaches of contract, termination of the contract, minimal sales, certifications, advertising campaigns, prohibitions, etc.

Additionally, some alternative types of licences may be used. Grouped under the open licensing movement (see Glossary), these types of licences (creative commons, Coloriuris, Licencia Aire Incondicional, etc.), are useful to avoid the need to hire an intermediary and sign a different contract every time (traditional licences).

In the event of a dispute, the provisions of the contract would apply directly. For all the matters that have not been foreseen in the contract, general laws and similar laws apply, as well as customs.

In order to prevent losing control of the business, it is strongly recommended that the contract anticipates as many situations as possible, avoiding unfair or illegal contract terms. In particular, it is advisable to expressly state that the licensing contract does not imply the transfer or sale of the right to register the trade mark or patent.

Important aspects related to the type of IP right to be licensed

When dealing with trade marks, the terms of use of the distinctive sign are essential to the contract.

A user's guide is required in order to maintain the value of the brand and to avoid tarnishing the mark. This happens when the licensee misuses the sign, for example when the logo or sign is used on lower quality goods, or when deceiving advertising is used to promote a product or service identified with the brand.

Likewise, it is advisable to clearly determine the marketing channels through which the products associated to the trade mark will be distributed: producer-consumer or producer-retailer-consumer, for example.





Moreover, it is advisable to determine the commercial segments for commercialisation (e.g. fashion, stationery products, restaurants, among others).

TIPS and WATCH OUTS

SMEs can benefit from entering into licence agreements with Latin American enterprises that can not only internationalise their business but also open its commercial scope. Examples of these collaborations are common in the fashion industry, such as the use of popular Netflix characters in clothing lines for Pull&Bear (using Money Heist and Stranger Things) or H&M with Disney.

If you are trying to open your business line, you may want to consider doing so by means of a third-party licence that will minimise operational costs and associated risks.

When dealing with patents and transfer of technical knowledge or know-how, delimiting the scope of the technology to be licensed is essential.

Considering the importance of patents and technical knowledge, it is always advisable to have a specific clause within the contract that includes the aspects and extent of the technology transfer.

For example, in a pharmaceutical patent, a licence can be granted for a particular method of vaccine development, but the patent itself may disclose other protected methods that cannot be used by the licensee.

For transfers of know-how, it is necessary to include a confidentiality clause in the contract to prevent losing valuable information for the company.

Lastly, it is also helpful to seek professional advice when determining the royalties to be paid. In some jurisdictions like Colombia, there are different interpretations regarding the calculation of royalties, that is to say, by the commercial price of the product, by setting a percentage of the total income, or even by paying in advance.

TIPS and WATCH OUTS

Chile, Argentina, Brazil and many other Latin American countries have specialised departments within the IP offices that deal with technology transfers. These administrative divisions help inventors and tech-based companies to find a suitable partner to capitalise their developments.

This also facilitates the harmonisation of the academic communities and the industry.



INTELLECTUAL PROPERTY

4. Related links and additional information

Find out more about licensing in any of the Latin American countries by visiting the [Latin America IP SME Helpdesk website](#).

Relevant links and documents related to this matter:

www.portaldofranchising.com.br

www.creativecommonsvenezuela.org.ve

www.licensingpages.com

www.franchise.org

5. Glossary

Licensing: a contract between two parties, licensee and licensor, where the latter authorises the former to use a protected intellectual property right in exchange for a royalty, while the licensor keeps the IPR ownership. Licensing generates a higher level of involvement from the licensee compared to the distributor and requires building a trust-based relationship between the two parties.

Due diligence: evaluation of an asset or a set of assets in order to get reliable knowledge about their status. In IP, this term makes reference to the assessment of the IP owned or used by a company, as well as an assessment of the IP rights of third parties (especially the relevant ones), which may have an impact on the company's business.

Franchising: a contract between two parties, franchisor and franchisee, where the former provides the latter with a licence to use their IPRs, business assistance and promotion in exchange for a royalty that is usually divided into a fixed franchise fee when the contract is signed, as well as a percentage of the revenues or sales.

Open licensing: term used in the computer field (also applied to literary and artistic works) to designate the type of legal protection of certain licences, which includes the user's right to use, modify and redistribute a software program or its derivative works, with the requirement to maintain the same conditions regarding use and dissemination.



IP Licensing in Latin America

Download Guide



The **Latin America IP SME Helpdesk** offers **multilingual services** (English, French, German, Spanish and Portuguese¹), with free information and first-line legal advice on IP related subjects, as well as training, webinars and publications, especially designed for EU SMEs.



HELPLINE First-line advisory service on IP protection and enforcement for EU SMEs working or planning to operate in Latin America.

TRAINING Targeted trainings and webinars on IPR protection and enforcement for EU SMEs (including sector- specific approaches).

IP CONTENT State-of-the-art publications (factsheets, learning modules, videos, IP glossary, info graphics, case studies and newsletters) on the protection and enforcement of IPR in Latin America – specifically addressing IP matters from the SME business needs point of view.

AWARENESS RAISING EVENTS Participation in events attended by EU SMEs to increase the awareness of IP and of the visibility of the services provided by the Helpdesk.

IP ANALYSIS Analysis of IP challenges faced by EU SMEs in the target markets.

IP DIAGNOSTIC TOOLKIT Toolkit for self-evaluation of the IP-status of the user in terms of IP knowledge and management.

IP COST TOOL Online tool that allows the user to pre evaluate the costs related to IP management in every Latin American country covered by the Helpdesk.

¹The language offer will depend on the specific service and experts' availability.

If you have any queries on how to protect your Intellectual Property in Latin America contact our Helpdesk service:

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Working Hours: Monday - Friday 9:00 -16:30 (CEST)

If you want more information on additional free services offered by the Helpdesk contact the coordination team:

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