

FACTSHEET

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

The growth of an SME is inevitably linked to its international expansion, particularly in those cases where IPR is an important asset for the enterprise.

Unfortunately, this kind of venture is traditionally associated to uncertainty due to geographical, cultural and economic barriers (ignorance of the local market, inadequate resources, high risks, etc.).

In order to solve these difficulties, some expert advice might be necessary.

Nevertheless, licensing is one of the most effective ways to begin and consolidate the internationalisation process:

- It makes it easier to gain experience and knowledge about the market by interacting with local enterprises. This makes for a reduction of the costs and risks related to direct intervention.
- It enhances producer and consumer confidence, since the authenticity of the product is certified.

For the last 30 years, Intellectual Property (IP) licensing has notably increased in Latin America. This is not a coincidence: economic crises in Europe normally imply an industry growth in America, especially concerning franchising, according to some studies by América Economía (2012).

One of the reasons for this is that this region offers many opportunities in terms of trade concessions for this kind of contracts (increased knowledge of the target market and better product and service positioning). On the other hand, legislative reforms and the awareness raised among all the parties involved led to a clear increase in the confidence and effectiveness of licensing contracts.

There are more than 2,031 franchised trademarks in Brazil and the total number of establishments is 93,098. Education and entertainment are the most important sectors and they generate the highest turnover (28% of the total sales).

Source: <https://www.portaldofranchising.com.br/>



TIPS and WATCH-OUTS

All Latin American countries are Member States of the World Trade Organization (WTO). Additionally, many of them have created commercial alliances, regional integration initiatives or even customs unions that facilitate trade between these countries (e.g. MERCOSUR and Chile).

Other examples: Andean Community of Nations (CAN), Caribbean Community (CARICOM), Central American Integration System (SICA), The Pacific Alliance

2. What to do before licensing

A. The importance of a pre-licensing advisory service

Local advice is essential for SMEs. National intellectual property offices and local associations of IP agents can be easily contacted. Additionally, a specialised local law firm will be capable of analysing all the relevant factors for this contract.

A successful licence negotiation implies that all the IP aspects of the SME (products and services) are taken into account when designing the draft contract.

SMEs also need some advice when preparing the necessary documents for the agreement.

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

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

On the other hand, **choosing the right type of licensing contract** depending on the specific business conditions is **essential**: distinctive signs may be protected by means of a trademark licence; if the object to be protected is an invention or knowledge, then a patent licence or know-how licence should be used; etc.

The source code of an app cannot be licensed by means of a patent licence in Chile: it should be protected by Copyright.

In this respect, it should be borne in mind that Latin America countries deal with Intellectual Property (IP) in very different ways. For further information regarding this and many other IP matters, please visit the Latin America IPR SME Helpdesk website and contact us. Our experts will be pleased to assist you.

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**, cover only **one territory or several territories**, cover only **one product or a whole product line**, etc.

Moreover, a **licensing contract may be associated to a main contract** (e.g. franchising). Besides trademarks (trademark licence), these contracts also protect the products' know-how, the design of the commercial premises, product packaging, etc. This type of contract is widely used in the gastronomy sector in this region. For this reason, this model is one of the easiest ways to grow.

Licensing contracts can be associated to other contracts (e.g. confidentiality agreements, technical support contracts, etc.). In which cases are ancillary agreements more interesting? Mostly in patent licence contracts (pharmaceutical patents, chemical patents, mechanical patents, etc.).

Brazil is where franchising is most extensive in number, with around 1,800 operational franchises. It is closely followed by Venezuela, Argentina and Chile.

B. The choice of the right licensee

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

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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 in the market.
- They have current or potential clients that may be interested in the products or services to be licensed.
- They are familiar with 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.

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

- Quality control clause: aimed to check compliance with the conditions agreed upon.
- Penalty clause in case of failure to meet commitments: it discourages the licensee from breaching the contract and ensures the right to compensation if the contract is eventually breached.

C. The development of a strategy to protect intangible assets by Intellectual Property Rights (IPR).

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 does not know. It is advisable to contact an expert who evaluates these resources and provides some advice about the process of international exploitation.

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Before signing a licensing contract, it is recommended to check through an advisor if the intangible assets have already been protected by a third party in the country. The result of this search shall be the subject of a written report, commonly called "Freedom to Operate" (FTO).

By means of FTOs you will know, for instance, if your trademark has already been registered, or if a former partner of your graphic design studio sold the rights over the characters of a cartoon series, which did not belong to him/her.

Apple found out that the trademark "iPhone" had already been registered in Brazil

What to do in these cases:

- Contact a lawyer and decide if it is necessary to bring legal proceedings. Apple took this decision and won.
- Negotiate with the current holder: there is the possibility to buy the trademark or to sign a coexistence agreement.



3. Licensing contracts: some useful advice

There are two possible situations:

There may be a specific law on licensing contracts (typical contract):

In this case, particular attention must be paid if 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 upon. In Venezuela, there are higher legal restrictions: trademark licences may only be transferred if the business is transferred as a whole.
- **Price of a trademark licence.** Example: In Brazil, the price for the use of a trademark where technology is not transferred should not exceed 1% of the sales of the licensed products, unless there is evidence to the contrary. However, the other MERCOSUR countries do not have specific regulations in this regard.
- **Licence duration.** Their 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 for up to 5 years.
- **On the other hand, Andean countries may establish time limits under the Andean Pact, e.g. in Venezuela, every IP right has a specific time limit stipulated by Law.**

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- **Quality standards of the products manufactured under a licence.** For example, Trademark 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 Pact countries, licensing contracts must include regulations on quality standards.**

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

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

Joint use of the trademark by the licensor and the licensee. For instance, Brazilian legislation establishes that the licence must expressly authorise the licensee in order for him/her to use his/her own trademark together with the licensor's trademark and advertising campaign. There are no specific regulations in this respect in the rest of the MERCOSUR countries.

There may not be a specific law on licensing contracts (atypical contract):

The fact that the contract is atypical does not constitute an obstacle for its conclusion, but it involves additional work for its drawing up.



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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, price, payment terms, time limits, territorial scope, exclusivity, liabilities, breaches of contract, termination of the contract, minimal sales, certifications, advertising campaign, prohibitions, etc.

Additionally, some alternative types of licence may be used. Clustered under the Copyleft movement (Creative Commons, Coloriuris, Licencia Aire Incondicional, etc.), these types of licences eliminate the need to hire an intermediary and to sign a different contract every time (traditional licences).

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SMEs that are specialised in the sale of software can grant massive licences through Creative Commons.

Example: This type of licence has been available in Venezuela since 2009, where they are strongly supported by the State.

In case 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, as well as customs of the sector, apply.

In order to prevent losing control over 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 trademark or patent.
- A cheaper but less-effective alternative when the SME has NOT been granted a patent consists of transferring the know-how to the licensee by means of confidentiality agreements.
- It is also important to state the terms of use of: **Distinctive signs**. For example: Advertising campaign of the products and/or services. **Patented knowledge** and/or know-how to be licensed. For example: the terms for the use of the necessary knowledge to produce a product or provide a service.
- A constant monitoring of the licensee to ensure compliance with the obligations agreed on by the parties is advisable. This monitoring can be carried out by means of external audits, which should also be included in the clauses of the licensing contract.



4. Related links & additional information

Find out more about licensing in Chile, Brazil and the rest of the Latin American countries. Visit the Latin America IPR SME Helpdesk website:

www.latinamerica-ipr-helpdesk.eu/

Relevant links and documents related to this matter:

www.portaldofranchising.com.br

www.creativecommonsvenezuela.org.ve

www.licensingpages.com

www.franchise.org



5. Glossary

These are just some of the terms you can find in our Glossary section. Visit www.latinamerica-ipr-helpdesk.eu/ to know more.

Licensing: Licensing is a contract between two parties, licensee and licensor, where the later authorizes the former to use a protected Intellectual Property Right in exchange of a royalty, while the licensor keeps the IPR ownership.

Source: [Latin America IPR SME Helpdesk](#)

Franchising: Franchising is a contract between two parties, franchisor and franchisee, where the former provides the later with a license to use his IPRs, business assistance and promotion in exchange of a royalty that is usually divided in a fixed franchise fee at the signing of the contract and a percentage of the revenues/sales.

Source: [Latin America IPR SME Helpdesk](#)

Copyleft: is the term used in the computer field (and it is also applied to literary and artistic works) to designate the legal protection type of certain licenses, which include 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.

Source: [Punto y Coma](#)

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www.latinamerica-ipr-helpdesk.eu

MANAGE YOUR INTELLECTUAL PROPERTY IN LATIN AMERICA

ABOUT LATIN AMERICA IPR SME HELPDESK:

The Latin America IPR SME Helpdesk offers free of charge, first-line support on IP and IP rights matters to facilitate the expansion of European SMEs (EU SMEs and SMEs from the Associated countries) already established at, or working with entities in Latin America as well as those potentially interested in establishing commercial and R&D activities and ventures in these countries.

SERVICES

Helpline: Ask our experts any IP related questions in Latin America! We provide professional IP advice – customized, straightforward, and free of charge. Our Experts will answer your question within three working days.

Newsletter: Keep track of the latest news on IP in Latin America relevant to your business.

Multi-lingual Webportal: Browse our multilingual web portal for a broad range of information and training materials on IPR in Latin America in English, Spanish, Portuguese, French and German.

Training: Attend our trainings (online and on-site) and learn more about the key aspects of IPR protection and enforcement issues for doing business in Latin America.

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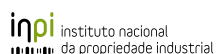
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