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Cross-retaliation allowed on Intellectual Property rights. Brazilian President enacts Provisional Measure providing for the suspension of IP rights.

On February 10th, 2010, President Lula enacted Provisional Measure No. 482 (PM 482/2010), which provides for measures of suspension of obligations related to the TRIPs Agreement as a form of retaliation under the WTO Dispute Settlement Understanding. Provisional Measures are acts equivalent to Laws, with immediate effects and enacted without the involvement of the Legislative.

This specific act relates to Brazil's recent victory before the WTO's Dispute Resolution Body against the USA due to federal subsidies to the US cotton industry. Brazil was authorized to retaliate on the amount of approximately US\$ 830 million and was allowed to cross-retaliate in services and Intellectual Property.

In view of the WTO Panel's result, a couple of Bills were presented to the Brazilian Congress establishing how the retaliation would be implemented. Bill No. 1893/2007, presented by Representative Paulo Teixeira, from the Government's party, is the most important of them and establishes a number of measures against IP Rights, including, but not limited to copyright, trademarks, patents, plant varieties, software and trade secrets, comprising data package confidentiality.

PM 482/2010 is clearly based on this Bill and establishes a similar set of measures against those same IP rights to be used as retaliation when the WTO Dispute Settlement Body authorizes. Among the measures established by PM 482/2010 are:

- (i) the reduction of the term of protection of IP rights;
- (ii) the compulsory licensing of IP rights;
- (iii) the parallel importation of products protected by patents;
- (iv) the increase of official fees for acquiring and maintaining IP rights;

- (v) the temporary prohibition of the remittance of royalties abroad;
- (vi) the creation of additional registration requirements for acquiring and maintaining IP rights.

These measures would be applicable against nationals of the country against which Brazil was allowed to retaliate or against residents thereof. In the case of the cotton dispute, the measures would be applicable against US residents and US nationals with IP rights in Brazil. The enactment of PM 482/2010 in the pendency of Bill No. 1893/2007 and so little after Brazil was allowed to cross-retaliate suggests the Government is willing to use the measures above soon.

As mentioned, PM 482/2010 was enacted without the participation of the Legislative. According to the Constitution, after its enactment, the Provisional Measure must be submitted to Congress, which will decide about its conversion into a regular law within a 60-day statutory term, after which the PM becomes void.

It is important to note that the Constitutionality of the measures established by PM 482/2010 is dubious and may be challenged before courts. In fact, the Institute of Brazilian Lawyers has performed a study over the measures established by Bill No. 1893/2007 - based on which PM 482/2010 was made -, and concluded that most of them are unconstitutional. The final opinion of the Institute was drafted by members of the firm and may be found at <http://www.iabnacional.org.br/IMG/pdf/doc-1069.pdf>.

**Presidency of Republic
Office of the President's Chief of Staff
Office of the Subchief for Legal Affairs**

PROVISIONAL MEASURE N° 482, OF FEBRUARY 10, 2010.

Providing for concession stay measures or other country liabilities connected with intellectual property rights and others, in events of noncompliance with the liabilities in the Charters of the World Trade Organization ("WTO").

THE PRESIDENT OF THE REPUBLIC, under the powers granted thereto by Article 62, of the Constitution, hereby adopts the following Provisional Measure by operation of law:

Article 1. This Provisional Measure provides for concession stay measures or other country liabilities connected with intellectual property rights and others, in events of noncompliance with the multilateral liabilities by a Member of the World Trade Organization ("WTO"), at the time that the Federative Republic of Brazil has been authorized by the WTO's Dispute Resolution Body to stay the application, for said Member, of concessions or other liabilities under WTO Agreements.

Article 2. For the purposes of this Provisional Measure, the following is considered:

I – Charters of the World Trade Organization of 1994: the treaty establishing the World Trade Organization, completed in Marrakesh, on April 12, 1994, contained in the Final Minutes Incorporating the Results of the Uruguay Round of the Multilateral Trade Negotiations of the General Agreement on Tariffs and Trade ("GATT"), of April 12, 1994, incorporated to the Brazilian legal system by the Decree n° 1.355, of December 30, 1994;

II – Agreement on Trade-Related Intellectual Property Right Aspects: the

agreement being an integral part of Exhibit 1C, of the Final Minutes Incorporating the Results of the Uruguay Round of GATT's Multilateral Trade Negotiations, of 1994, incorporated to the Brazilian legal system by the Decree n° 1.355, of 1994;

III – Understanding on Resolution of Disputes: the Understanding Connected with the Rules and Procedures on Resolution of Disputes of the WTO, which is an integral part of the Exhibit II, of the Final Minutes Incorporating the Results of the Uruguay Round of GATT's Multilateral Trade Negotiations, of 1994, incorporated to the Brazilian legal system by the Decree n° 1.355, of 1994; and

IV – intellectual property rights: rights connected with the intellectual property of:

- a) literary, artistic, and scientific works;
- b) interpreting or performing artists, phonogram producers, and broadcasting organisms;
- c) computer programs;
- d) trademarks;
- e) geographic indications;
- f) industrial drawings;
- g) invention patents and utility models;

- h) cultivars or vegetal varieties;
- i) integrated circuit topographies;
- j) confidential or undisclosed information; and
- k) other intellectual property rights set forth by the Brazilian laws in force.

Article 3. The following measures can be adopted in the application of this Provisional Measure:

I – stay of intellectual property rights;

II – limitation of intellectual property rights;

III – alteration of measures for application of rules for protecting intellectual property rights;

IV – alteration of measures for obtainment and maintenance of intellectual property rights;

V - temporary blocking of **royalty** remittance or compensation connected with the exercising of intellectual property rights; and

VI – application of rights having a commercial nature on the compensation of the holder of the intellectual property rights.

Sole paragraph. For purposes of application of measures addressed in this Article, the provisions relevant to registration procedures provided for in relevant laws shall be considered, provided that the assignments of the Brazilian National Institute for Industrial Property (“INPI”) and the Brazilian Federal Department for Agriculture, Cattle Raising, and Supply are complied with.

Article 4. The measures provided for in the Provisional Measure can be applied to the following Parts of the Agreement on Aspects:

I – Part II – on standards connected with the existence, comprehensiveness, and exercise of intellectual property rights with respect to:

a) copyright and related rights;

b) trademarks;

c) geographic indications;

d) industrial drawings;

e) patents;

f) integrated circuit topographies; and

g) confidential information protection or undisclosed information protection;

II – Part III – on the application of protection rules for intellectual property rights; and

III – Part IV – on the obtainment and maintenance of intellectual property rights and related **interparty** procedures.

§ 1. The intellectual property protection of computer programs, pursuant to international liabilities, is considered an integral part of subitem “a”, of subsection I, of the **caption** of this Article.

§ 2. The intellectual property protection for cultivars and vegetal varieties, pursuant to international liabilities, is considered as an integral part of the liabilities arising out of subitem “e”, of subsection I, of the **caption** of this Article, under subitem “b”, paragraph 3, of Article 27, of the Agreement on Trade-Related Intellectual Property Right Aspects.

Article 5. The measures addressed in this Provisional Measure may only affect applicants, holders, or licensees of intellectual property rights, namely:

I – Brazilian national natural persons of the Member of the WTO, in the condition described in Article 1, or domiciled therein; or

II – legal entities domiciled or established in the Member of the WTO, in the condition described in Article 1.

Article 6. The measures addressed in this Provisional Measure may be applied whether on an individually or cumulatively basis, as approved in the resolution of the Council of Ministers of the Foreign Trade Chamber (“CAMEX”), as follows:

I – postponement of protection beginning from date to be determined by the Executive Branch, with the consequent reduction of the protection term, for intellectual property protection ongoing requests;

II – subtraction of the protection term for define term at any time of its length;

III – licensing or non-commercial public use without the holder’s consent;

IV – stay of the holder’s sole right to prevent the import and trading at the domestic market of assets incorporating patent rights, even though the imported asset has not been directly placed at the foreign market by the holder of the intellectual property rights or upon the consent thereof;

V – increasing or institution of allowance on amounts due to the public administration bodies or entities for making registrations of intellectual property rights, including the obtainment and maintenance thereof;

VI – temporary blocking of **royalty** remittance or compensation connected with the exercising of intellectual property rights of national or authorized licensees within the Brazilian national territory;

VII – application of rights having a commercial nature on the compensation the holder of the intellectual property rights is entitled to; or

VIII – creation of obligation of registration for obtainment and maintenance of intellectual property rights.

§ 1. In the event of the ceasing of the measures addressed in subsections I and II of the **caption** of this Article, the retake or reestablishment of protection shall not import:

I – restitution of the subtracted term, even though the right is dependent on the concession of rights or registration act carried out upon ceasing; or

II – extension of the protection term.-

§ 2. In the case addressed in subsection III, of the **caption** of this Article, the measure may be applied with or without compensation.

Article 7. The application of rights having a commercial nature addressed by subsection VII, of Article 6, shall be approved by resolution of the Council of Ministers of the Foreign Trade Chamber (“CAMEX”), for a definite term, upon application of compensatory percentage on the compensation amount the people mentioned in Article 5 are entitled to.

§ 1. The following persons shall answer for the payment of rights having a commercial nature, addressed in the **caption** of this Article:

I – the financial agent closing the foreign exchange contract, in the event of a bank remittance; and

II – the natural person or legal entity making the credit or payment without consent by the agents of the Brazilian national financial system, or with funds maintained abroad.

§ 2. The payment of rights having a commercial nature, addressed in the **caption** of this Article is independent from any actions having an administrative or taxable nature, and it shall be payable on the date of payment, remittance, or credit.

§ 3. The failure in paying the rights having a commercial nature, addressed in the **caption** of this Article, shall give rise:

I – in the event of spontaneous payment, upon remittance, payment or credit, to the charging of fine and interests on arrears; and

II – in the case of requirement of official letter, a seventy-five percent fine accrued of the interests on arrears provided for in subsection I.

§ 4. The fine for arrears provided for in subsection I, of § 3, shall be calculated at zero point thirty-three percent rate for day of delay from the first day promptly upon the date of the remittance abroad up to the day when the payment is actually made, limited to twenty percent.

§ 5. The interests on arrears provided for in subsection I, of § 3, shall be calculated at the reference rate of the Special System for Settlement and Custody (“SELIC”) for federal bonds, accumulated on a monthly basis from the first day of the month subsequent to the remittance, payment or credit, up to the last day of the month before that of the payment, accrued of one per cent in the month of payment.

§ 6. The fine addressed in subsection II, of § 3, shall be individually required when the rights having a commercial nature, addressed in this Article, have been paid upon remittance, payment, or credit to the persons mentioned in Article 5, but without additions on arrears.

§ 7. The requirement *ex officio* of rights having a commercial nature, addressed in the **caption** of this Article, as well as the additions on arrears and penalties, shall be formalized through tax assessment notice issued by the Tax Auditor of the Internal Revenue Service of Brazil provided that the provisions in Decree n° 70.235, of March 6, 1972, and the five-year term from the date of remittance, payment or credit are complied with.

§ 8. Provided that a liability default is ascertained, the Internal Revenue Service of Brazil (“RFB”) shall forward the debit to the Office of the Attorney General to the Brazilian National Treasury (“PGFN”), for registration with the Court Collectible Debts of the Federal Government and respective collection, provided that the five-year statute of limitations is complied with.

§ 9. Only amounts paid by way of collection of rights addressed in the **caption** of this Article shall be refundable in cases of improper payment or overpayment, provided that the procedures set forth by the Internal Revenue Service of Brazil (“RFB”) are complied with.

§ 10. The amounts paid as a right having a commercial nature addressed in the **caption** of this Article shall be registered as original revenues and classified in the category of “Revenue Arising from Intellectual Property Right Concession Stay Measures”, and shall be destined to the Brazilian Federal Department for Development, Industry, and Foreign Trade, for application in foreign trade actions, pursuant to guidelines approved and set forth in resolution of the Council of Ministers of the Foreign Trade Chamber (“CAMEX”);

§ 11. The amounts paid by way of fine on arrears and *ex officio*, as well as the interests on arrears shall be destined to the Special Fund for Development and Improvement of Control Activities (“FUNDAP”) established by Article 6, of the Decree-Law n° 1.437, of December 17, 1975.

Article 8. During the effectiveness and within the limits set forth for the application of any of the measures addressed in this Provisions Measure, the following shall be stayed for the persons addressed in Article 5:

I – application of the principle of domestic treatment and the principle of most favored nation, with the application of the

discretionary treatment under the Understanding Concerning Rules and Procedures on Resolutions of Disputes of the World Trade Organization (“WTO”);

II – the rights granted to the holder or applicant of intellectual property rights under the current intellectual property laws addressed in Article 4;

III – the rights granted to beneficiaries or applicants for protection against the unfair commercial use of information concerning test results or other undisclosed data submitted to the relevant authorities as a condition to approve or maintain the registration of products’ trading; and

IV – the obtainment and maintenance of intellectual property rights and related **interparty** procedures.

Sole paragraph. The application of the measures provided for in this Provisional Measure does not import in any sort of remuneration or compensation as regards the exercising of rights by third parties, except for cases of licensing or non-commercial public use compensated without the holder’s consent.

Article 9. The application of provisional measures in this Provisional Measure shall be preceded from a preliminary report by the Foreign Trade Chamber (“CAMEX”), accompanied by a draft for the measures and respective grounds.

§ 1. The interested parties shall have a twenty-day term for submitting pronouncement from the date when the preliminary report is published in the Federal Official Gazette.

§ 2. Upon the elapsing of the term provided for in § 1, the Council of Ministers for the Foreign Trade Chamber (“CAMEX”) shall resolve on a definitely basis, unless in the event it resolves for the application of measure not contained in the preliminary report, in which event the procedure described in this Article shall be repeated.

§ 3. In the application of the measures addressed in this Provisional Measure, proposals submitted by the Brazilian segments bringing appeals against WTO’s mechanism for resolution of disputes giving rise thereto may be evaluated.

Article 10. The measures addressed in this Provisional Measure shall have a definite term, and may only be adopted for the time the authorization of the WTO’s Dispute Resolution Body lasts.

Sole paragraph. The reestablishment, within the scope of the TWO, at any time whatsoever, of concessions or other Brazilian liabilities stayed:

I – does not import the restoration of rights that have been affected by the application of measures; and

II – shall not impair third parties’ legitimate interests arising from agreements entered into with, or from uses authorized by the Executive Branch, during the application of the measures adopted grounded on this Provisional Measure.

Article 11. The Executive Branch shall set forth mechanisms for monitoring the application of the measures adopted grounded on this Provisional Measure.

Article 12. This Provisional Measure shall become effective on the date it is published.

Brasília, February 10, 2010; 189th year of Brazil’s Independence, and 122nd year of Brazil’s Republic Proclamation.

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