

Brazilian Report – Questionnaire B (Torino)

1. Exhaustion of IP rights

Brazilian law currently establishes a principle of national exhaustion of IP rights. Basically, the owner of an IP incorporated into a product cannot impede its use if the product was introduced in the internal market by the owner himself or by someone authorized by him.

In Brazil, all IP rights are subject to exhaustion of rights. To some IP rights, however, the exhaustion is international, as further detailed below.

Most cases which have reached the higher courts of Brazil refer to protection of trademarks in the context of parallel importation.

In general, the courts are allowing parallel importation of goods covered by registered trademarks, albeit the national exhaustion, in the following cases:

- i) The distributor was authorized by the owner of the trademark
- ii) The importation was made for personal use (the good was not bought to be introduced in the internal market)
- iii) The owner of the trademark did not take any action for a long time despite having knowledge of the parallel importation. The time needed to make the parallel importation legal is to be defined according to the specificities of each market branch.

Trademarks, Patents and Industrial Designs are explicitly subject to national exhaustion rights, as per articles 132, III and 43, IV of the Brazilian Industrial Property Law (Federal Law No. 9,279/96), respectively.

The Brazilian Copyright Law (Federal Law No. 9,610/98) and the Brazilian Software Law (Federal Law No. 9,609/98) do not establish the exhaustion regime of copyrighted works and software, hence, they are submitted to the general rule of international exhaustion regime.

The Brazilian IP Law establishes some rights to the owner in the specific case of trademarks even after lawful insertion in the internal market.

More specifically, the owner of a trademark registration has the right to impede the modification of the trademark in the product even after first sale, as long as the modified product is reinserted in the market (i.e., not for personal use), as per article 189, II of the Brazilian IP Law. The courts have been construing this article to also prohibit the sale of a customized product which is identified by a registered trademark.

Another legal prohibition is the one enclosed in article 190, II of the Brazilian IP Law, which prohibits an original product from being offered for sale inside a package bearing a trademark by another owner.

Recently, scholars and lawyers have been discussing the possibility of impeding a product lawfully inserted in the market from being resold in a venue which is deemed incompatible with the trademark's value.

For instance, under this doctrine, the owner of a registered trademark for luxury watches could impede the resale of said watches for prices which are considerably lower and on popular venues.

The basis for this proposed doctrine is the defence against dilution of the trademark, as well as the protection of consumers, considering that the second hand market is usually less careful with packaging and information about the product.

Yet, this doctrine has not yet been sanctioned by the courts.

Moreover, concerning software, the Brazilian Law, in its article 2, §5, grants the owner of copyright in software the exclusive right to authorize or prohibit commercial leasing. Also, the law explicitly states that this right is not exhausted by the sale, license or any other form of transfer of the copy of the software.

Ultimately, in our opinion, the principle of exhaustion as conceived in Brazilian law is satisfactory and manages to balance the involved rights and interests.

2. “Traditional industry” / “On line industry”

Brazil does not have a formal definition of e-commerce nor any law of our country attempts to define it. In case law, an explicit definition has not been attempted, yet, e-commerce is generally regarded as any transfer of property or rendering of services using the internet as a medium.

The on-line industry is not defined by law nor is it regulated differently than the traditional industry. It is important to highlight that Brazil’s law does not make a distinction between online industry and traditional industry.

3. Exhaustion of IP rights in “on line industry”

Brazilian case law, as far as our research went, only handles the exhaustion of specific IP rights, mostly trademarks.

We are not aware of any cases which dealt differently with exhaustion of IP rights in traditional industry vis-à-vis online industry.

Accordingly, we are not aware of any court decision which dealt with a case similar to Oracle (EU Court) in Brazil.

Yet, we should think that Brazilian Courts would construe the license of software as exhausting IP rights in it, as the EU Court of Justice did in the Oracle case. Contrarily to some other national laws, Brazil does not confine exhaustion of rights to a transfer of property (purchase or donation), but defines it by the “insertion in the market”, which is a term that can be construed to include the license of use.

Corroborating this is the language of article 2, §5 of the Brazilian Software Law:

§ 5. Among the rights guaranteed by this Law, and by the copyright legislation and connected provisions currently in force in Brazil, is included the exclusive right to authorize or prohibit commercial leasing. This right is not exhausted by the sale, license or any other form of transfer of the copy of the software. (our highlight)

The highlighted part of the article links exhaustion of rights to the licensing of software and seems to consider the license as a species of “transfer of the copy of the software”.

In theory, a contract could establish control of the owner of an IP right over the use and destination of the product which incorporates said IP right.

Yet, as the Brazilian Law upholds the exhaustion principle, this contractual restriction would be construed as waving of rights.

Brazilian Civil Code (Federal Law No. 10,406/2002) states in article 423 that any waiver of rights in adhesion contracts are considered null.

Hence, if the contract in case is considered as an adhesion contract (as most contracts are), the contractual restrictions to the usage of works should be considered null. The same nullity applies to contracts entered into with consumers, as per article 51 of the Brazilian Consumer Code (Federal Law No. 8,078/1990).

On the other hand, the contractual restriction would probably be considered lawful if the parties have thoroughly discussed the contract and the end party is not considered a consumer.

Ultimately, Brazilian law and case law has not yet been directly influenced by decisions from the US or the EU.

4. IP rights and on line industry: infringement and remedies

In Brazil, the concept “on-line infringement” of an IP right does not differ from a traditional infringement

As a matter of fact, any acts which violate third parties’ legitimate rights in a digital environment, such as an internet website, would be considered an infringement on the digital platform.

Basically, the same remedies available in traditional infringement are available in online infringement. Of course, what would be a “seizure” of infringing products is substituted by the take down of the infringing website and/ or material.

In our opinion, current legislation in Brazil is generally adequate to treat online infringement, but may fall short on some specific issues. As noted above, the seizure available in traditional infringement may not be undertaken in online infringement.

In order to take down a website, one must request the judge to send a notification to Registro.br (Brazilian registrar) or to determine the infringing party to shut down the site / remove the infringing material under penalty of a daily fine.

It must be noted that neither the police nor government authorities have powers to take down websites; these powers are exclusive to the Judiciary and Registro.br.

It is important to highlight that Brazil has just enacted a law to regulate the internet called “Marco Civil”. Yet, “Marco Civil” does not grant powers to any other authorities, other than the Judiciary, to take down websites.

In any event, and notwithstanding our critical standpoint stated above, Brazilian Civil Procedure law grants effective preliminary/ interim remedies in case of online infringement.

In fact, granted that plaintiff is able to evidence a risk of irrecoverable damage and a probability of infringement, the Judge may issue orders to impede or mitigate the infringement before a ruling is available. This request may be made in any step of the proceeding.

Most of the time, the difficulty of enforcing a decision against an “on-line infringer” arises from the fact that he has used fake information to register his website or, even if the information is real, plaintiff cannot obtain his actual location in order to seize infringing products or to collect damages.

Of course, this difficulty significantly arises if the infringer is located abroad and/or if the website is hosted in a foreign country, as a Brazilian judge does not have jurisdiction over a foreign country’s registrar.

5. Conclusion

In our opinion, a different application of the principle exhaustion of IP rights to online industry is not necessary.

Brazilian lawyers have been monitoring closely recent cases arising in the USA and EU concerning the attempt of owners of IP rights to control the resale of products distributed online, such as music, films and software. In our view, the use of license agreements instead of purchase agreements may lead to a crisis in the IP law and the exhaustion principle, with wide economic effects.

However, as far as national law is concerned, the online industry has not yet ensued any significant change in the exhaustion principle of IP rights.

IP law in Brazil is generally adequate to face the phenomenon of the online industry. Yet, some changes should be probably undertaken regarding specific remedies to relieve infringement of IP rights over the Digital Market Place.

In particular, we are of the opinion that the exhaustion principle should be adapted in order to protect marketing strategies and safeguard commercial reputation and consumer rights. Yet, this adaptation should be done very carefully and be mindful of the secondary market and consumers’ freedom concerning the destination of products which embody IP rights.