Brazil
Brésil
Brasilien

Report Q 156

in the name of the Brazilian Group
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International Exhaustion of Industrial Property Rights

1. Is there international exhaustion of (i) patents; (ii) trade marks; and (iii) other industrial property rights? That is, can an industrial property right owner use industrial property rights against parallel imports from another country, when the imported products have been put on the market in that country by the industrial property right owner or with his consent?

(i) Patents

As a general rule, exhaustion of rights is deemed to occur only with respect to products placed by the patentee or with his consent in the internal market (art. 43, IV of Brazilian Federal Law 9.279/96), while - amongst other acts - the patentee has the right to prevent third parties from importing the patented product or a product directly obtained by the patented method (art. 42 of the same law).

Although considered as infringement for civil purposes, parallel import is not considered as a crime (art. 184 of the same law), even though further acts performed with respect to such product will possibly constitute a crime. Thus, as a general rule, the patentee is able to prevent third parties from performing parallel import, but solely civil remedies are available.

For the sake of simplicity, from now on we will only refer to the import of the patented product, while this should be considered also to embrace the import of a product directly obtained by the patented process.

Despite the above general rules, the Brazilian Industrial Property Law provides for two specific exceptions, in which the patentee cannot prevent parallel import:

(a) under art. 68, § 4 if the patentee is exploring his patent by means of import of the patented product, then third parties are entitled to perform parallel import;
(b) according to art. 68, § 3 if a compulsory license is granted to a third party on the grounds of abuse of economic power, the licensee is entitled to perform parallel import during 1 (one) year, and during the period in which the licensee is importing the patented product any third party is also entitled to perform parallel import.

As to item (a) there is an apparently predominant body of opinion in the Brazilian group taking the position that the Brazilian Patent Law does not conform to the provisions of TRIPS’ art. 27.1 insofar as “patent rights [shall be] enjoyable without discrimination as to ... whether products are imported or locally produced”, and thus the rights of the patentee should not be affected in any way as a result of such discrimination, even considering that TRIPS’ art. 6 excludes issues concerning exhaustion of rights from its scope.

(ii) Trademarks
The Brazilian Law # 9.279/96 regulates the limitation of trademark right owner in its article 132. Item III of this article can be reasonably interpreted as admitting parallel imports in a specific case:

"Art. 132 - The owner of the mark may not:
III - prevent free circulation of the product placed on the internal market either by itself or by a third party with his consent, except with regard to the provisions of (3 and (4 of article 68".

However, the matter presents different understandings. In the first place, the rule determines that the product must have been placed in the internal market with the trademark owner consent. Thus, the exhaustion of rights is considered at national level.

With regard to the formula adopted by the referred rule, it has been questioned if the mentioned "consent" can be tacit or must be explicit. The prevailing opinion is that a tacit consent is sufficient to enable the import. Thus, there are some situations which are likely to occur:

a) the manufacturer/ distributor of the imported product is a licensee of the trademark owner and his license agreement allows to place the product in any territory. In this hypothesis, there is an express consent and the parallel import seems possible;

b) the manufacturer/ distributor of the imported product is a licensee of the trademark owner, the license agreement does not contain any territorial restriction and the trademark owner does not have a licensee in Brazil. In this hypothesis, there appears to be a tacit consent and the parallel import seems possible;

c) the manufacturer/ distributor of the imported product is a licensee of the trademark owner, the license agreement contains a territorial restriction, excluding the Brazilian territory; and the trademark owner does not have a licensee in Brazil. In this hypothesis, there is no consent and the parallel import does not seem possible; and

d) the manufacturer/ distributor of the imported product is a licensee of the trademark owner, the license agreement contains a territorial restriction, excluding the
Brazilian territory; and the trademark owner has an exclusive licensee in Brazil. In this hypothesis, there is no consent and parallel import does not seem possible.

The question whether or not the use of trade mark rights as a mean to bar parallel imports is valid depends on the interpretation of the aforesaid statutory provision by the courts. In any circumstance, however, it seems reasonable to interpret that the trademark owner can bar the parallel import whenever the imported product has a standard of quality lower than the product manufactured/sold in the local area, taking into account that this sale can disparage the prestige of the trademark.

2.(a) *Can contractual restrictions imposed by an industrial property right owner be used to limit the effect of international exhaustion?*

**Patents**

2.a.i) First, we recall that as a general rule Brazil adopts the concept of national exhaustion of patent rights. In cases in which the patentee is prevented to stop parallel import as commented above, it seems that contractual restriction clauses in patent licenses in the country in which the product is placed in the market can limit the effect of international exhaustion.

Since the product must have been placed in the market with the consent of patentee, if the licensee places the product in a certain region or country which exceeds limitations imposed by the license agreement, then this product will not be deemed as having been placed in that market with the consent of the patentee, and its import shall be held as non statutory. In short, the Brazilian Group understands that in the event of breach of contractual restrictions, the patentee should not bear the consequences and one should not admit the international exhaustion.

2.(b) *What is the effect of breach of contractual restriction by a purchaser - does exhaustion occur?*

2.b.i) Again, international exhaustion only occurs in very few cases, and the requirement is that the product has been placed in the market with the patentee’s consent. Thus if this requirement is met, and afterwards the purchaser breaches a restriction clause, e.g. preventing him from exporting the product he has purchased to Brazil, we understand that this will constitute a breach of contract but will not prevent occurrence of exhaustion of patent rights.

**Trademarks**

2.ii) The questions 2(a) and 2(b) imply two hypothesis:

i) an exclusive license agreement made between two foreign companies, one of them holding trademark rights in Brazil and having granted an exclusive license in Brazil or not;

ii) an exclusive license agreement made between a foreign owner of a trademark registered in Brazil and a Brazilian company.
In hypothesis (i), the agreement is not intended for execution in Brazil. Notwithstanding this fact, a clause which limits the territory has the effect of proving that there is no consent to the sale of the product in the Brazilian market.

In hypothesis (ii), the agreement is intended for execution in Brazil and subject to recordal at the Brazilian PTO in order to produce effects against third parties, inasmuch as it has the effect of proving that there is no consent to the import of the product to the Brazilian market by third parties, since there is an exclusive licensee authorized to use the mark at the local marketplace.

The question depends on interpretation by the courts. The following precedents should be quoted as an orientation for the analysis of this issue in Brazil:

- **SEGA** case (Lower Court decision) - (Temporary Restraining Order # 1.088/92 - AO #1.377/92 - 26th VC - São Paulo/SP - (Plaintiffs): TecToy Indústria de Brinquedos Ltda. and Taicorp - Comércio e Empreendimento Ltda. (Defendant): JHK Comércio e Importação Ltda.):

The Judge considered that the existence of the trademark in Brazil, as well as the agreement of exclusive exploitation of the trademark and manufacture/sale of the products is sufficient to bar the import of the products by the Defendant, even if the products are manufactured by third parties abroad, with the trademark owner's consent. Thus, in a decision rendered before Law # 9.279/96 was in force, parallel import was not permitted based on the trademark property and on the agreement made with the Brazilian company to the exclusive exploitation, manufacture and sale.


The decision stated that the Defendant lawfully acquired the 1st Plaintiff products, and that the 1st Plaintiff acted in a negligent manner when allowed the import. The Judge ruled that item III, of Article 132 of the Brazilian Industrial Property Law cannot be alleged in order to bar the free movement of merchandise, since this bar is contrary to the economic order. The bar also constitutes an infringement of the Constitutional Principle which states that nobody shall be compelled to do anything, unless when determined by the law. The relationship between the foreign Plaintiffs and the Plaintiff established in Brazil is irrelevant in this case. As such, parallel import was permitted based on the principle of the exhaustion of the trademark owner's rights.

- **BROTHER** case (Lower Court decision confirmed by 4th Civil Chamber of TJSP - AC #094.733-4/2-00 - Original proceeding: AO # 2.699/97-7 - 11th VC - São Paulo/SP - (Plaintiff): Brother International Corporation do Brasil Ltda. - (Defendant): Surlorrán Indústria Têxtil e Comércio de Máquinas Ltda.).

In the light of an exclusive license agreement for use of trademark BROTHER, which belongs to the Japanese company Brother Industries Ltd., the Court found the import of the products by the Defendant non statutory because it required the Plaintiff's consent,
according to item III of article 132 of the Brazilian Industrial Property Law. Thus, in this case, parallel import was not permitted based on the lack of consent of the trademark owner and his licensee in Brazil.

The answer to items (2.a) and (2.b) are not related to the question of execution of the agreement in Brazil, and it is only relevant to determine the non-existence of a consent to the introduction of the goods in the Brazilian marketplace.

3.(a) *If contractual restrictions can be used to limit import, does it matter whether they are express or implied?*

**Patents**

i) The Brazilian law does not define the term "consent". Thus, in principle, the consent to place the product on the market can be express or implicit. Likewise, it would also seem that it does not matter whether restrictions are express or implicit, provided that they are clear.

**Trademarks**

ii) There is no rule concerning the form of contractual restrictions. The restrictions are preferably express, in order to show the unequivocal intention of the trademark owner to preserve the Brazilian market exploitation.

3.(b) *If contractual limitations are express, are there any particular marking requirements?*

**Patents**

i) No.

**Trademarks**

ii) Again, there is no rule concerning the marking of the product referring to a contractual restriction of the territory where such product is allowed to be placed. However, once more, the marking of the product ("only for sale in North-America", for instance) is very important to determine the non-existence of consent to place the product in other markets, except those expressly authorized in the contract and mentioned in the product packaging.

3.(c) *If protected products are marked to indicate some marketing restriction, what are the consequences of removal or loss of any marking?*

**Patents**

i) If a product is marked, e.g. "only for sale in region X", and the purchaser acquires the product in the authorized region, for the effect of the Brazilian legislation (regarding the few cases in which the parallel import is accepted - see item 1.i above) he acquired a product placed in the market with the consent of the patentee. If he eventually removes this marking, and imports the product to Brazil, this would not seem to affect the issue of violation of patent rights, but only possibly would violate contractual restrictions in the country of import.
Trademarks

ii) If the products are marked in order to restrict their circulation in determinate markets, the removal of this mark reveals: (a) the previous knowledge of the importer as to this restriction; (b) the unequivocal intention of the importer to disregard this restriction, which constitutes bad faith. This circumstance will certainly have an impact in a judicial dispute with the importer. The removal of the product mark can also be considered as an act of unfair competition, if interpreted as a fraudulent mean to divert the customers of the trademark owner's exclusive licensee, in Brazil (ex vi item III, of Article 195, of the Brazilian Industrial Property Law).

4. **Does international exhaustion of industrial property rights apply where a product has been put on the market under a compulsory license (if applicable)?**

Patents

i) Always considering that exhaustion occurs when the product is deemed to have been placed in the market with the patentee's consent, if a product is placed in another country under a compulsory license, it seems reasonable to consider that, strictly speaking, there was no consent of the patentee. In this respect we note that when addressing the issue of compulsory licenses in art. 31, TRIPS refers to "Other Use Without Authorization of the Right Holder".

Trademarks

ii) At this point, the question seems to refer to the product placed in international market under a compulsory license.

It is our opinion that the compulsory license is an exceptional situation, which reflects the imposition of a national authority will over a trademark owner. It is evident that, in this case, the product under compulsory license can only be placed in the territory under the jurisdiction of the national authority which had determined the application of the sanction. Thus, in this case, exhaustion of rights does not occur.

On the other hand, in the hypothesis, there is no consent of the industrial property right owner to manufacture and sell the product in the national market where compulsory license is in force and, consequently, there is no consent to place the product in other markets.

5. **Is "consent" which gives rise to exhaustion limited to specific arrangements, (for example a relationship with a subsidiary or affiliated company, or an agreement with a licensee), or a question of fact in each case?**

Patents

i) As already mentioned, the law does not define the term "consent", so that it is a question of fact in each case.
Trademarks

ii) We understand that the consent can be shown, in a tacit or express manner, through determined "arrangements" between the owner of the right and third parties, including their subsidiaries and licensees. However, this item must be analyzed as a question of fact on a case-by-case basis.

6. Can an IPR owner object to parallel import where (a) goods or (b) their packaging have been modified?

Patents

i) As far as patent rights are concerned, it is irrelevant if the packaging has been modified. As to a possible modification of the patented goods themselves, a case by case analysis is required. Basically one needs to verify if the imported goods can be considered as the same goods that were placed in the external market with the patentee's consent, and if such modified goods still fall within the wording of the patent's claims".

Trademarks

ii) We are taking for granted that a prerequisite of parallel import is that the product is original, including its packaging and respective markings. The modification of the product and of its packaging does not constitute parallel import, being considered as import of a modified product, concurrent, and can be precluded on the basis of the existing industrial property rights.

The modification of the product or of its packaging can also give rise to sanctions based on fraud and unfair competition, particularly under items III and VIII of Article 195, of the Brazilian Industrial Property Law.

However, whenever the repackaging of the product is imposed by the consumer protection legislation, it shall not be considered as an infringement of any industrial property rights. In this respect, for instance, section 31 of Brazilian Law # 8078/90 requires that all information regarding the use, characteristics and quality of the product be written in Portuguese. Thus, the importer shall be allowed to add such information in the label, provided that its translation from the foreign language is complete and precise. If this addition was not acceptable, the sales would not be possible and consumer law rules would be an indirect obstacle to block parallel imports even in the permitted cases.

7. As well as stating the laws in their respective countries, the groups are also invited to (a) make any proposals for changes; and (b) offer any observations of interest on the topics raised above.

Patents

i) As to any possible change, although not unanimous, the Brazilian Group would be in favor of excluding § 4 of Art. 68 from the Brazilian law. (b) The Brazilian Group is of the opinion that exceptions allowing international exhaustion in the context of the patent law were introduced by the law makers in detriment to the patentee when local manufacture of
patented products is not carried out in Brazil. The majority of the Group holds this to be inconsistent with Article 27.1 of TRIPS.

**Trademarks**

ii) The question of exhaustion of trade mark rights is extremely complex and the Brazilian group has not yet an unanimous position vis a vis its possible future treatment, which demands a deeper analysis not only of the economic impact of parallel imports but also possible implications with the Brazilian anti-trust legislation.