Brazil
Brésil
Brasilien

Report Q205

in the name of the Brazilian Group
by Carlos EDSON STRASBURG, Cláudio Roberto BARBOSA, Cristina PALMER,
Gabriela NEVES, Maitê Cecilia FABBRI MORO and Marc EHLERS

Exhaustion of IPRs in cases of recycling and repair of goods

Questions

I) Analysis of the current statutory and case laws

1) Exhaustion

In your country, is exhaustion of IPRs provided either in statutory law or under case law with respect to patents, designs and trademarks? What legal provisions are applicable to exhaustion? What are the conditions under which an exhaustion of IPRs occurs? What are the legal consequences with regard to infringement and the enforcement of IPRs?

In Brazil the tension between national and international exhaustion of IPRs was always driven by the reasoning that international exhaustion would undermine possible incentives for the IPR owner (or its licensee or distributor) to enhance its local production. Moreover, international exhaustion may also obstruct the ability of the local manufacturer (licensee or distributor) to recover marketing expenses, together with costs related to the development of the local market. Following the orientation given by AIPPI Q156, the Brazilian Group always sustained that national exhaustion of IPRs should be encouraged in opposition to international exhaustion.

As an introduction, the Brazilian group divided herein below the different treatment of exhaustion of patents, design and trademarks, stressing whenever there is a significant difference between statutory law and case law.

a) Patents

Concerning patents, the industrial property statute (Brazilian Industrial Property Law N°. 9.279/96, herein "BIPL") provides in its article 42 that the *"patent confers on its proprietor the right to prevent third parties from manufacturing, using, offering for sale, selling or importing for such purposes without his consent: I - a product that is the subject of a patent; II - a process, or product directly obtained by a patented process;"*. However, the exclusive right grated to the patent owner is limited by article 43, IV, which states that: *"the provisions of the previous article do not apply: [...] IV - to a product manufactured in accordance with a process or product patent that has been placed on the internal market directly by the patentee or with his consent;"*. Therefore, articles 42 and 43, IV provide the statutory language for the national exhaustion of patented goods.

Furthermore, in Brazil whoever infringes an IPR, such as a patent infringement, is not only susceptible to civil sanctions, but also to criminal ones. Although parallel importation constitutes a civil violation it does not constitute a crime under the Brazilian statute. According to article 184 of the BIPL: *"A crime is committed against a patent of invention or a utility model patent by he who:* [...] *II - imports a product that is the subject matter of a patent of invention or of a utility model patent or is obtained by a means or process patented in this country, for the*

purposes mentioned in the previous item, and that has not been placed on the external market directly by the proprietor or with his consent."

Despite the above general rule, it must be noted that according to the BIPL, article 68, which refers to compulsory license, there are two possibilities in which the importation of a patented product or a product manufactured according to a patented process by third parties is admitted provided that it has been placed on the market directly by the patentee or with his consent, namely:

i) when the object of the patent is not manufactured by the patentee in Brazil due to economic inviability and the patentee is importing the manufactured product;

ii) when a compulsory license is granted due to abuse of economic power, a period of time will be guaranteed to the licensee proposing to manufacture locally, to proceed with the importation of the subject matter of the license.

b) Design

Design receives the same legal treatment that a patent, i.e., a national exhaustion is granted to the design owner according to article 109 of the BIPL and its sole paragraph assuring that *"[t]he property in an industrial design is acquired by a validly granted registration"*, equivalent to patents by its sole paragraph *"[a]s far as applicable, the provisions of article 42 and of items I, II and IV of article 43, will apply"*.

c) Trademarks

There is also a national exhaustion related to trademarks, it being important to stress that the parallel importation is a civil (BIPL, article 132, III) and a criminal illicit action (articles 189 and 190 of the BIPL). Article 132, III is clear to limit the exhaustion of trademark rights to the first sale within the internal market. A Regional exhaustion foreseen in article 13 of the Mercosur Trademark Protocol (MERCOSUL/CMC/DEC. nb. 8/95) is not in force.

Case law has been applying national exhaustion (e.g. TJRS, Appeal nb. 70002659688, 2001, 6th Chamber, August 1st, 2001; TJRJ, Interlocutory Appeal nb. 24.496/01, March 09, 2001, 8th Chamber) since the enactment of the current BIPL.

2) *International or national exhaustion*

Does the law in your country apply international exhaustion for patents, designs or trademarks? If yes, are there any additional conditions for international exhaustion compared to regional or national exhaustion, such as a lack of marking on products that they are designated only for sale in a specific region or country or the non-existence of any contractual restrictions on dealers not to export products out of a certain region? What is the effect of breach of contractual restrictions by a purchaser?

As mentioned, Brazilian law adopts national exhaustion for trademark, patents and design, being the international exhaustion only adopted as a defence for criminal sanctions related to the importation of patented goods placed in the international market by the owner (or a related company) of the Brazilian Patent.

If your law does not apply international exhaustion, is there regional exhaustion or is exhaustion limited to the territory of your country?

Exhaustion is only national, i.e. only limited to the Brazilian territory, as there is no regional exhaustion in force in Brazil.

In case your country applies regional or national exhaustion, who has the burden of proof regarding the origin of the products and other prerequisites for exhaustion and to what extent?

Usually the IPR owner has the burden to prove and present evidence that the imported goods were placed in the market without his authorization, or, if the accused good was made in

Brazil only for exportation, he also has the burden to prove that the good was diverted into the internal market without his authorization.

Besides this initial proof of the IPR owner whenever he is the plaintiff, alleged infringers must demonstrate that accused goods were legitimately acquired and there was an authorization of the IPR owner to commercialise it.

3) Implied license

Does the theory of implied license have any place in the laws of your country? If so, what differences should be noted between the two concepts of exhaustion and implied license?

Although exhaustion is national, if the goods are acquired abroad directly from the IPR owner, it may be argued that the IPR owner granted a license to use the product (protected by the IPR or bearing the trademark) inside the Brazilian territory. As this distinction is based on case law, there is no clear statutory difference between the concept of exhaustion and implied license.

A decision from the Appellate Court of Sao Paulo dealing with the importation of second hand hardware and software (TJSP. Appeal nb. 265.570-1/8 of April 16, 1997, 8th Civil Law Chamber) stressed that the contractual provisions restraining exportation and distribution should be dealt with by the parties of the agreement and such agreement should not affect third parties. The current software protection statute (Law nb. 9.609/98) clearly states that there is no complete exhaustion of a computer program copyright after a sale, license or any other form of assignment (see art. 2nd, §5th of Law nb. 9.609/98).

An Interlocutory Appeal also from the 8th Civil Chamber (TJSP. Appeal nb. 081.299-4/0-00 of September 9th, 1998), also stressed the fact that the proof of direct sales from the owner of the trademark to the Brazilian distributor should undermine a prima facie trademark infringement case, avoiding the possibility of granting an injunction.

Finally it is worth to mention that an Appeal decided by the 5th Chamber of Sao Paulo Appellate Court (TJSP. Appeal nb. 229.580-1/9, November 11, 1995, 5th Civil Chamber), also stressed that there must be considered the existence of a implied license to use the trademark as the legal basis concerning the exhaustion (national exhaustion in this case, as the goods were acquired in a tax free area inside the Brazilian territory).

4) Repair of products protected by patents or designs

Under what conditions is a repair of patented or design-protected products permitted under your national law? What factors should be considered and weighed? Does your law provide for a specific definition of the term "repair" in this context?

Under a common understanding based on the general commercialization, the exclusive IPR granted to the IPR owner is exhausted after the first sale occurred within the Brazilian territory: in this situation there are no restrictions concerning the repair of patented or design-protected product according to Brazilian Law.

However, a different situation may occur when the "repair" or "recycling" of a product is claimed as a process in a patent. In such case the very process of repair or recycle would infringe the IPR, not the possession of the used good. The use of a patented good to repair or to recycle may bring an issue of contributive infringement.

There is no legal definition of "repair" in this context.

5) Recycling of products protected by patents or designs

Under what conditions is a recycling of patented or design-protected products permitted under your national law? What factors should be considered and weighed? Does your law provide for a specific definition of the term "recycling" in this context?

The same conditions of repair are applicable to recycled goods, it being important to stress that recycling increases the public interest component of the situation. Opposing the interest of the IPR Owner, there is a public interest concerning the general economy of resources, environmental protection, consumer protection and, generally, antitrust provisions that could be considered.

There is no legal definition of "recycling" in this context.

6) Products bearing trademarks

Concerning the repair or recycling of products such as reuse of articles with a protected trademark (see the examples hereabove), has your national law or practice established specific principles? Are there any special issues or case law that govern the exhaustion of trademark rights in your country in case of repair or recycling?

A revoked Brazilian statute, Law N° 6.348 of July 7th, 1976, provided that no bottle should receive an engraving that could prevent this bottle to be reused by other companies. This statute was discussed in a lawsuit that finally concluded that no private marking (unless the bottle itself was object of a patent or design patent) should be engraved in a bottle in order to prevent its recycling. (see TJSP. Appeal nb. 200.223-1/0, 7th Civil Chamber, March 9th, 1994). It is important to stress that this law was formally revoked by article 244 of the BIPL.

At this moment, there is no specific statutory language concerning products bearing trademarks that are recycled and reinserted in the market. The rational related to patented and/or design-protected goods should be applied in this case, however unfair competition is always used by courts as a possible argument to prevent exhaustion (e.g. TJPR. Interlocutory Appeal nb. 167.148.3, 9th Civil Chamber, February 24, 2005, a decision that maintained the exclusive use of coloured and marked water gallons that were reused by competitors based on unfair competition).

7) IPR owners' intention and contractual restrictions

a) In determining whether recycling or repair of a patented product is permissible or not, does the express intention of the IPR owner play any role? For example, is it considered meaningful for the purpose of preventing the exhaustion of patent rights to have a marking stating that the product is to be used only once and disposed or returned after one-time use?

There is no case law concerning the express intention of the IPR owner concerning recycling or repair, however it is likely that in some extent, IPR owner express intention may prevail in connection with patent products and patented process.

On the other hand, it is also likely that marked goods (per se) and trademarks would not prevent third parties from further commercializing in Brazil goods recycled or repaired since they were first commercialized with the IPR Owner authorization provided that the market has sufficient information to understand this is a repaired or recycled good.

In fact, if the repaired or recycled good is sold as if it was an original good, then it may be possible to qualify such sale as a crime against the registered mark, especially in the case of refills. Article 190, II of the BIPL provides, in brief, that a crime is committed when a product is sold within a container, bottle, vessel or package carrying a legitimate trademark belonging to a third party.

b) *What would be conditions for such kind of intentions to be considered?*

The main condition is that the consumer and the IPR owner had direct negotiations concerning the scope of the sale of the patented good or process. In such case, if the repair or recycling is per se a claimed invention, there would be a very limited margin of discussion. On the other hand, if the claimed invention is a product without any claim related to the repair or recycle, it must be proved that an actual negotiation concerning the conditions of use of the sold product and the prohibition of repair or recycle did actually occur.

c) *How decisive are other contractual restrictions in determining whether repair or recycling is permissible? For example, if a license agreement restricts the territory where a licensee can sell or ship products, a patentee may stop sale or shipment of those products by third parties outside the designated territory based on his patents. What would be the conditions for such restrictions to be valid?*

Besides the situation where actual negotiations did take place between licensor and licensee and the repair or recycling would actually infringe the claims of the patent, other contractual restrictions, most likely, shall have limited impact.

Considering the suggested example, based either on trademarks or patents, it is likely that the licensor would be able to terminate the agreement, to collect damages, and to seize products and shipments while the goods are still in the possession of the licensee, specially if the IPR owner may prove that they are intended to be commercialized against the agreed conditions between the parties. After the first sale, it is likely that the IPR owner cause of action would be limited to the termination of the agreement and damages.

d) *Are there any other objective criteria that play a role besides or instead of factors such as the patentee's intention or contractual restrictions?*

There is no objective criteria that could be mentioned.

e) *How does the situation and legal assessment differ in the case of designs or trademarks?*

As mentioned, there is no difference in the assessment of contracts when trademarks or designs are involved.

8) *Antitrust considerations*

According to your national law, do antitrust considerations play any role in allowing third parties to recycle or repair products which are patented or protected by designs or which bear trademarks?

There is no case law related to antitrust considerations related to the prevention of repair or recycle goods due to exclusive IPRs. However, there were some administrative decisions prohibiting the exclusive appropriation or destruction of goods that should be recycled (e.g. bottles). (See. Comparato, Fábio Konder. RT 535/36, 1980).

Concerning antitrust, it is important to mention that article 68 of BIPL also provides for compulsory licensing of patents whenever "[the patent owner] e*xercises his rights therein in an abusive manner or if he uses it to abuse economic power according to the law in force, under the terms of an administrative or judicial decision*".

9) *Other factors to be considered*

In the opinion of your Group, what factors, besides those mentioned in the Discussion section above, should be considered in order to reach a good policy balance between appropriate IP protection and public interest?

An economic consideration is an important factor that should be considered in order to achieve an appropriate balance between IP protection and public interest. The analysis whether or not the IPR owner may fully recover the R&D investment on the first sale is an essential information to decide whether a further extension of protection should be granted to the IPR owner.

10) Interface with copyrights or unfair competition

While the present Question is limited to patents, designs, and trademarks as noted in the Introduction above, does your Group have any comments with respect to the relationship between patent or design protection and copyrights or between trademarks and unfair competition relative to exhaustion and the repair and recycling of goods?

Copyright should receive (in theory) the same considerations of patents, utility patents, designs and trademarks in connection with the exclusiveness of IPRs related to repair or recycling. However, as mentioned, copyright related to software receives a different statutory treatment as no exhaustion occurs as a result of a sale, license or assignment of a computer program.

Unfair competition, on the other hand, should be further studied because many harmless issues studied in connection with patents and trademarks may represent troublesome situations under an unfair competition perspective. Brazilian courts are extremely sensitive in regard to such problems.

11) Additional issues

In the opinion of your Group, what would be further existing problems associated with recycling and repair of IPR-protected products which have not been touched by these Working Guidelines?

Besides the consumer protection (associated with unfair competition issues) and environmental considerations, both mentioned in the answer of item 9, the main issues have been dealt with by the Working Guidelines.

II) Proposals for uniform rules

1) What should be the conditions under which patent rights, design rights and trademark rights are exhausted in cases of repair and recycling of goods?

The Brazilian Group understands that a national exhaustion regime should be applied to patent, design and trademark rights and the issue of repair or recycling should not modify this exhaustion, unless repaired or recycled goods are unfairly used in commerce. In this sense, public interest associated with environmental concerns should be considered together with consumer protection.

2) Should the repair and the recycling of goods be allowed under the concept of an implied license?

In spite of the fact that it has been the basis of some case law in Brazil, the Brazilian Group understands that the concept of an implied license is not an objective concept that would bring certainty in exhaustion cases.

3) Where and how should a line be drawn between permissible recycling, repair and reuse of IP-protected products against prohibited reconstruction or infringement of patents, designs and trademarks?

Only when the claimed technology specifically includes the recycling or repair, such activities should be, per se, an infringement of the IPR. Otherwise, unfair competition should be the line to distinguish permissible recycling, repair and reuse.

4) *What effect should the intent of IPR holders and contractual restrictions have on the exhaustion of IPRs with respect to recycling and repair of protected goods?*

This matter has a strong public interest component and the intent of the IPR holder and contractual restrictions should have effect only among the parties involved.

5) *Should antitrust issues be considered specifically in cases of repair or recycling of goods? If so, to what extent and under which conditions?*

Antitrust issues should be considered whenever the practice affects more than one IPR holder or industry, i.e. only when the market is been affected antirust issues should be considered.

6) *The Groups are invited to suggest any further issues that should be subject of future harmonization concerning recycling, repair and reuse of IP-protected products.*

There is no further issues related to a future harmonization concerning recycling, repair and reuse of IP-protected products because such harmonization should be dealt with only after a general agreement concerning exhaustion of IPRs is achieved. The Brazilian Group understands that a broad study concerning exhaustion, unfair competition, consumer protection and environmental concerns should be undertaken in order to achieve a common basis for discussion and no specific issues should be discussed at this point.

7) *Based on answers to items 1 to 6 above, the Groups are also invited to provide their opinions about how future harmonization should be achieved.*

The only solution foreseen concerning a broad IPR exhaustion is under the discussion of a General International Treaty Revision such as the Paris Convention, or under the World Trade Organization.

Summary

In general, Brazilian Law adopts the national exhaustion of IPRs, being important to stress that there is no regional exhaustion and that there are two main exceptions: there is no exhaustion concerning copyright of computer programs, and international exhaustion should be considered valid to dismiss a criminal patent infringement claim. Further commercialization or reuse of recycled or repaired product is generally allowed and there is no legal definition of recycled or repaired goods in this context. An important exception is likely to occur when the repair or the reuse process is itself the claim of a patent.

In Brazil, recycling and reuse are the means to achieves important public interest policies and should work together with environmental and consumer protection principles. Therefore, it is likely that exhaustion will be applied to reused and recycled goods, unless there is a clear misinformation in the market regarding the characteristics of the origin of such goods. Finally, it is important to stress that it is unlikely that implied licenses would limit the general exhaustion principles, due to consumer protection provisions in the Brazilian Law.

Résumé

En général, la loi brésilienne adopte l'épuisement national des droits de propriété intellectuelle, étant important de souligner qu'il n'y a pas un épuisement régionale et qu'il y a deux exceptions: il n'y a pas épuisement du droit sur les programmes d'ordinateurs, et l'épuisement international doit être considéré pour finir une demande criminelle de brevet. Commercialisation ultérieure ou la réutilisation des produits recycles ou réparés est normalement permis et il n'y a pas une définition

légale de produits recyclés ou réparés dans ce contexte. Une exception importante est probable de se passer quand la réparation ou le procès de réutilisation est lui-même la demande d'un brévet.

Au Brésil, recyclage et réutilisation sont mesures d'une importante politique d'intérêt publique et doivent être analysés conjointement avec les principes d'environnement et de protection aux consommateurs. Dans ce sens, c'est probable que l'épuisement soit appliqué pour des produits réutilisées et recyclées, sauf s'il y a une claire désinformation dans le marché concernant les caractéristiques de l'origine de ces produits. Enfin, il est important de souligner que il est difficile que licences données limitent les principes générales de l'épuisement, dû à la protection du consommateur dans la loi brésilienne.

Zusammenfassung

Im Allgemeinen nimmt das brasilianische Gesetz die nationale Erschöpfung von gewerblichen Schutzrechten an, wobei es wichtig zu betonen ist, dass es keine regionale Erschöpfung und dass es zwei Hauptausnahmen gibt: es gibt keine Erschöpfung hinsichtlich des Urheberrechts von Computerprogrammen, und internationale Erschöpfung sollte als gültig gelten, um einen kriminellen Patentverletzungsanspruch zu entlassen. Weitere Vermarktung oder Wiederverwendung des wiederverwerteten oder reparierten Produktes wird im Allgemeinen erlaubt, und es gibt keine zugelassene Definition der wiederverwerteten oder reparierten Waren in diesem Kontext. Eine wichtige Ausnahme tritt wahrscheinlich auf, falls die Reparatur oder das Wiederverwendungsverfahren selbst der Anspruch eines Patents ist.

In Brasilien sind die Wiederverwertung und die Wiederverwendung die Mittel, wichtige Politik öffentlichen Interesses zu erzielen, und sollte zusammen mit Klima- und Verbraucherschutzgrundregeln arbeiten. Folglich ist es wahrscheinlich, dass Erschöpfung an wiederverwerteten und wiederverwendeten Waren angewendet wird, es sei denn, es ist eine klare Fehlinformation auf dem Markt vorhanden bezüglich der Eigenschaften des Ursprungs solcher Waren. Schliesslich ist es wichtig zu betonen, dass es unwahrscheinlich ist, dass implizierte Lizenzen die allgemeinen Erschöpfungsgrundregeln wegen der Verbraucherschutzbestimmungen im brasilianischen Gesetz begrenzen würden.