

Question Q 156

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?

PATENTS

(i) 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), 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). Although considered as infringement for civil purposes, parallel importation is not considered as a crime (art. 184), 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 importation*, although any effective measure in this respect will be restricted to the civil courts.

For the sake of simplicity, from now on we will only refer to the importation of the patented product, while this should be considered also to embrace the importation 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 importation: (a) under art. 68, § 4 if the patentee is exploring his patent by means of importation of the patented product, then third parties are entitled to perform parallel importation; (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 importation during 1 year, and during the period in which the licensee is importing the patented product any third party is also entitled to perform parallel importation. As to item (a) there is an apparently predominant body of opinion in our Association that believes that the Brazilian Patent Law stands against 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 the scope of this agreement.

TRADEMARKS

(1.a) The Brazilian Law #9.279/96 regulates the limitation of trademark right owner in its article 132. Item III of this article seems to contain a permission to parallel importation. However, the matter presents different understandings.

In the first place, the rule determines that the product has been placed in the internal market with the trademark owner consent.

With regard to the formula adopted by the referred rule, it has been questioned if the mentioned "consent" can be tacit or express.

Thus, there are some situations which are likely to occur:

- 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 expressed consent and the parallel importation seems to be possible;
- the manufacturer/ distributor of the imported product is a licensee of the trademark owner and his license agreement does not restrict territories to the products placement; and the trademark owner does not have a licensee in Brazil. In this hypothesis, there is a tacit consent and the parallel importation seems to be possible;
- the manufacturer/ distributor of the imported product is a licensee of the trademark owner and his license agreement restricts territories to the products placement, 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 importation does not seem to be possible; and
- the manufacturer/ distributor of the imported product is a licensee of the trademark owner and his license agreement restricts territories to the products placement, excluding the Brazilian territory; and the trademark owner has an exclusive licensee in Brazil. In this hypothesis, there is no consent and parallel importation does not seem to be possible.

(1.b) The use of property rights over a trademark can either be valid or not in order to bar parallel importation depending, case by case, on a case law understanding of the mentioned legal rule.

In any circumstance, however, it seems to be reasonable that the trademark owner can bar the parallel importation 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 be harmful to the trademark concept.

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

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(i) (a) First, we recall that as a general rule in Brazil exhaustion of patent rights occurs only in the national level. In cases in which the patentee is prevented to stop parallel importation 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 importation shall be deemed to constitute normal infringement. In other words, the Brazilian Group understands that in the event of breach of contractual restrictions, the patentee should not be penalized. Consequently, international exhaustion should not occur.

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

(i) Again, the presumption for international exhaustion to occur, in the few cases in which this applies, is that *the product was 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

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

- i Foreign employers, being one of the parts a trademark owner in Brazil, which can either have or not an exclusive licensee in Brazil; and
- ii An exclusive license agreement settled between a foreign owner of a trademark registered in Brazil and a Brazilian company.

In hypothesis (i), the agreement is not feasible 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 feasible in Brazil (being recommended its recordal with INPI in order to produce effects regarding third parties) inasmuch as it has the effect of proving that there is no consent to the importation of the product to the Brazilian market by third parties, since there is a licensee for the exclusive exploitation of the national market.

The question depends on case law understanding. In this regard, the following paradigms can be cited:

- **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 manufacturing/ sale of the products sufficient to bar the importation of the products by the Defendant, even if the products are manufactured by third parties abroad, with the trademark owner consent. **Thus, in a decision rendered before Law # 9.279/96 was in force, parallel importation was not permitted based on the trademark property and on the agreement settled with the Brazilian company to the exclusive exploitation, manufacturing and sale.**

CENTRUM Case (Lower Court decision - AO n. 863/98 - 38th VC - São Paulo/SP - Plaintiffs: American Home Products Corporation. American Cyanamid Company and Laboratórios Wyeth-Whitehall Ltda. - Defendant: Importadora LDZ Comércio, Importação e Exportação). It is stated in the decision that the Defendant lawfully acquired the 1st Plaintiff products, and that the 1st Plaintiff acted in a negligent manner when allowed the importation. The Judge understood 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 barring is contrary to the economic order. The barring also constitutes an application, in a contrary sense, of the Constitutional Principle which states that nobody shall be compelled to do anything, unless when determined by the law. In this case it is irrelevant the relationship between the foreigner Plaintiffs and the Plaintiff which is established in Brazil. **As such, parallel importation was permitted based on the application of the principle of trademark owner exhaustion of rights in Brazil.**

- **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): Surlorran Indústria Têxtil e Comércio de Máquinas Ltda.): In the light of an exclusive license agreement for the exploitation of trademark BROTHER, which belongs to the Japanese company Brother Industries Ltd., it was understood that the act of the Defendant of importing products was irregular because it would need the Plaintiff's consent, according to item III of the article 132, of the Brazilian Industrial Property Law. **Thus, in this case, parallel importation 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 the agreement's feasibility in Brazil, and it is only relevant to determine the non-existence of consent to the internment of the products in the Brazilian market.

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

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(i) The Brazilian law does not qualify "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

There is no rule concerning the form of contractual restrictions and it is preferable that the restrictions are 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?

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(i) No.

TRADEMARKS

Again, there is no rule concerning the marking of the product referring to a contractual restriction of the territory where same 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 he had 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 importation.

TRADEMARKS

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 certainly will act, in a judicial proceeding, against 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

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 qualify "consent", so that it is a question of fact in each case.

TRADEMARKS

We understand that the consent can be shown, in a tacit or express manner, through determinate "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 importation where (a) goods or (b) their packaging have been modified?

PATENTS

(i) As far as patent rights concerned, it is irrelevant if packaging has been modified. As to a possible modification of the patented good itself, situation needs to be analysed in a case-by-case basis. Basically one needs to verify if the imported good can be considered as the same good that was placed in the external market with the patentee's consent, and if such modified good still falls within the wording of the claims of the patent.

TRADEMARKS

We are taking for granted that a prerequisite of parallel importation 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 importation, being considered as importation of a modified product, concurrent, and can be barred, normally, through the exercise of industrial property rights of its owner.

The modification of the product or of its packaging can, also, constitute fraud and act of unfair competition and, as a consequence, susceptible of coercion, according to Items III and VIII of Article 195, of the Brazilian Industrial Property Law.

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.

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(i) (a) As to any possible change, although not consensual, 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 to penalize 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.

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We leave our comments to reflect the results of the Comissions' discussion. However, it is our opinion that it is appropriate to make some considerations as to the applicability of the Brazilian Abuse of Economic Power Repression Law, which was also cited in some of the above-mentioned decisions (**CENTRUM** and **BROTHER** cases).