Brazil

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1. Substantive aspects of both criminal and civil law

1.1 Legal theories and principal sources of law

Trade secrets are protected as a category of intellectual property rights. In Brazil, their protection resides in the legislation set forth against unfair competition (considered a crime under Brazil's Industrial Property Law of 1996), in the TRIPS Agreement (the Agreement on Trade-Related Aspects of Intellectual Property Rights) and in other legal provisions such as the 'inviolability of privacy' clause of the Federal Constitution.

Trade secrets are thus protected by the statutory rules on fair competition, established in Articles 195(XI) and 195(XII) of the Industrial Property Law with civil and criminal effects, and by Article 842(g) of the Labour Law, according to which the breach of a trade secret by an employee is considered a valid reason for dismissal.

1.2 Qualification for protection

Any kind of industrial, commercial or business information arising out of time, money and work investments can be protected under trade secret legislation once the legal conditions are met. Thus, information that can be protected could be manufacturing processes, formulas, technical data, market survey results, client or supplier lists, internal rules of procedure, working methods and financial data (such as profit and loss forecasts etc).

To be entitled to protection as a trade secret, it is essential that the information:

- remains secret – which does not mean that the information has to be inaccessible, as it may be naturally shared with those who need it to perform their ordinary tasks, such as employees and suppliers who are bound to keep the information confidential;
- is not obvious to an expert in the subject;
- is applicable to business, meaning that the information must pertain to an economic activity of some kind;
- bears an economic value, meaning that the information must not be irrelevant but instead must imply the giving of an advantage over competitors;

- is not illegal;
- is not part of a patent; and
- is transmissible.

In addition, the owner of the secret must take reasonable measures that manifestly demonstrate the intent to keep the information secret.

1.3 Assignation and transfer of trade secrets

Under Brazilian law, trade secrets cannot be asserted as generating a property right since an express legal provision would be required for the secrets to fall within this strict legal category. Trade secrets may, however, be assigned or licensed as an immaterial right. Nevertheless, because of the nature of trade secrets – in that they are protected under the unfair competition principles – these contracts are atypical despite the fact that they follow the pattern of regular assignments and licences. Hence, the legislation on assignments and licences are applied to trade secrets and the corresponding contracts are frequently used in business and recognised by the Brazilian Patent and Trademark Office (BPTO), the tax authorities and the courts.

Moreover, it is important to mention that since trade secrets are not considered a property right, the BPTO does not recognise temporary licences but only definitive assignments of rights. If set out otherwise in the agreement, the BPTO will not record it. See also section 4.2 below for more on this.

1.4 Right to assert misuse of trade secrets

The owner (or 'person in control', as described in the TRIPS Agreement) of the trade secret is the party with the authority to assert its misuse.

Nonetheless, a licensee has the right to defend the trade secret against third parties if expressly agreed upon by the licensor. In order for the licensee to have standing to sue under the Brazilian legal system, it is recommended that the licence agreement be registered with the BPTO.

1.5 Threshold for the breach of a trade secret

According to the Industrial Property Law, the following activities of unfair competition are considered trade secret breaches: the disclosure, the exploitation or the use, without authorisation, of confidential knowledge, information or data, usable in industry, commerce or the providing of services, whenever unlawfully obtained. Thus, the mere disclosure – even if it does not cause damage – constitutes a crime and is actionable both civilly and criminally.

If it is proved that an imported good was manufactured thanks to the breach of a trade secret, the importation of this good can be considered an act of exploitation of the infringed trade secret under the Industrial Property Law, consequently allowing its owner to seek damages against the offender.

Statutory law is clear as to what activities constitute a breach of trade secret, as per Articles 195(XI) and 195(XII) of the Industrial Property Law, which state:

> *Article 195 – a crime of unfair competition is committed by [a person] who:*
>
> *...*
>
> *XI – discloses, exploits or uses, without authorization, confidential knowledge, information or data, usable in industry, commerce or the providing of services, excepting that which is of public knowledge or which is obvious to a person skilled in the art, to which he has had access by means of a contractual or employment relationship, even after the termination of the contract;*
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> *XII – discloses, exploits or uses, without authorization, knowledge or information as mentioned in the previous item, when obtained directly or indirectly by illicit means or to which he has had access by fraud;*

1.6 Direct and indirect liability for the breach of a trade secret

As a trade secret is not a property right in Brazil, a third party who has acquired in good faith a trade secret from an infringer or from someone on his behalf is not liable for trade secret infringement, since such a breach is considered an act of unfair competition and the key element of fraud is absent in the foregoing hypothesis. Only the infringer and his fellow participants are liable.

In civil tort and in the Labour act, all the participants in the infringement, such as an employee or a competitor, are jointly liable with regard to the trade secret owner. In contrast, in Brazil's criminal law the agents are liable in accordance with the degree of their participation and based on the personal conditions and individual contributions of each one to the crime. Therefore, inducing the crime can result in a different sanction when compared with the executor's actions, whether qualitatively or quantitatively – although both can apply for any particular crime. Essential conditions for joint liability are:

- the existence of a subjective bond between the agents, meaning that all the participants must share the same criminal intention; and
- the presence of a causal relationship between the criminal result and the conduct of each participant.

Directors and other employees of an infringing company can be liable for a trade secret infringement whenever a breach of contract or an inducement to breach occurs. Under Article 39, note 10, of the TRIPS Agreement, this includes "the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition".

1.7 Defences available

The Industrial Property Law and Labour Law expressly forbid the unauthorised use of trade secrets by employees and former employees; such action is regarded as an act of unfair competition and a breach of an employment duty. Nevertheless, as a matter of legal defence the same criteria foreseen in the Industrial Property Law are available to the defending party, combining them with the Industrial Property Law's rules on employees' inventions, stated in Articles 88–93 of that act. This allows a former employee to allege and prove (for instance) that he created the information forming the trade secret by himself outside the work environment and without the use of employer's resources, but later applied it within the company. This defence does not apply if differently agreed in the labour contract, nor if, for instance, the employee was specifically hired to develop the trade secret, which makes it a 'service invention' belonging entirely to the employing company and enforceable against unfair use.

Another possible defence comes from proving non-compliance of any of the conditions required by the TRIPS Agreement or the Industrial Property Law to constitute a trade secret.

The effects of trade secret protection in stimulating innovation are recognised as essential to the trade secret regime, so 'public interest' cannot be cited in Brazil as a defence to making trade secret information public. Information must enter the public domain legally, which is not the case for a trade secret breach.

1.8 Liability of claimants

The doctrine of sham litigation, which forbids the abusive use of the judicial system as a way of constraining competitors by means of lawsuits, regardless of the merit, pertinence or chance of success, has already been applied by the Brazilian antitrust authority (CADE) in administrative procedures against unlawful anticompetitive practices. Notwithstanding the foregoing, there is no case law involving the adoption of this doctrine before the courts and we can consider that its application would in some cases be challenged on the basis of the much-estimated constitutional clause of non-exclusion of the judiciary's scrutiny.

In view of that, it can be asserted that a defendant harmed by unfounded claims can file a lawsuit seeking damages against a claimant on the grounds of abusive use of the latter's right to propose actions. An administrative complaint for infringement of the constitutional

economic order, based on the principles of free enterprise and free competition, may also be filed before CADE.

Alternatively, the claimant can be exposed to liability when its preliminary measures are deemed excessive, given that, in the case of legally organised and publicly functioning industrial or commercial establishments, preliminary measures should be limited to the inspection and seizure of the products when so ordered by a judge. Under Article 203 of the Industrial Property Law, it is not permitted to paralyse legally exercised activity.

2. Final remedies under both criminal and civil law

2.1 Remedies for breach of a trade secret in a civil action

Typically, a final favourable decision on the merits of a case will grant damages to the plaintiff. The court can also order the destruction of infringing goods upon request at the beginning of the complaint. If convicted, the defendant may also be prevented from using the trade secret thereafter – although this decision, in order to be enforced against third parties, must have been preceded by procedures held *in camera* to protect the information's qualification as a trade secret as a result of the breach perpetrated by the defendant.

Decisions are published in the official court diary and posted on the court's website. Only in specific situations can it be requested that publication in other media be made.

2.2 Remedies for extraterritorial activities breaching a trade secret

Brazil has non-exclusive jurisdiction over cases in which:

- the defendant is headquartered in Brazil, regardless of nationality;
- the obligation is to be fulfilled in Brazil; or
- the action arises out of a fact or act that happened in Brazil.

Thus, an extraterritorial infringement must by that definition have minimal relationship with Brazil to allow the case to be brought before the Brazilian courts. If the infringer is headquartered or has offices in the country, all ordinary legal measures are available – although the ones destined to be enforced externally will have to be submitted to the foreign authorities through international judicial cooperation mechanisms, such as letters rogatory. The same goes for when the breach occurs in Brazil and the defendant has to be served with a suit abroad.

Brazilian Law applies if the breach occurs within the country. The appliance of foreign law is not easy nor common in Brazil, as the interested party must prove which is the applicable foreign law to the case, which involves hiring experts and thereby elevating costs.

In Brazil's criminal law, because of the 'ubiquity' doctrine, Brazil will always be competent to rule cases the effects of which affect the country's territory.

2.3 Obtaining an injunction

It is possible to obtain a final injunction to prevent a future breach.

Since an infringer cannot, as a matter of principle, benefit from his own malice, he can be prevented from using an illegally obtained trade secret within his business. The injunction against such use can apply to the sale, purchase, importation, manufacture, exportation, divulging etc of the infringing goods. Where the information continues to bear the nature of a trade secret because *in camera* proceedings were applied during the lawsuit, it is possible to compel third parties to refrain from using it within the above-mentioned activities.

2.4 Monetary remedies

The general criteria applying with regard to financial compensation are, according to the Industrial Property Law:

- the benefits that the injured party would have gained had the violation not occurred;
- the benefits actually earned by the infringer; or
- the remuneration that the author of the violation would have paid to the proprietor of the violated rights for a licence that would have legally permitted him to exploit the subject of the rights.

The Industrial Property Law provides for the application of the most favourable criterion to the claimant, as found in the case. During the enforcement phase of the lawsuit, an expert may be required and appointed by the court to define these values.

Since case law from the Superior Court of Justice expressly admits moral damage to legal entities, plaintiffs usually claim such damages, which can include punitive damages as a factor. Nevertheless, punitive damages are not foreseen in Brazilian law, and so the courts are not always receptive to applying this doctrine.

2.5 Restitutionary remedies

Restitutionary remedies are available in statutory law and are awarded by the courts.

As seen in section 2.4 above, compensation is usually calculated based on the lost profits of the trade secret owner or on the unlawful gains earned by the infringer, the latter being

compelled to pay or, if necessary, to have its property sold in a court auction to cover the damages. Although not usual, it can be requested by the defendant and admitted to the court by the plaintiff that the infringer sells the goods and pays the damages with the resources arising therefrom. It is expected that a sale conducted by the defendant in such a scenario would raise a higher amount than a court auction would.

The defendant's unjust enrichment can be alleged in any tort situation and is a principle recognised by Brazilian civil law. No cases of constructive trust imposition are known to the author and would not be applicable because, as seen before, trade secrets do not generate a right of property in the Brazilian legal regime.

2.6 Remedies and sanctions available for breach of a trade secret under criminal law

Once an infringer has been finally and criminally convicted, the victim is entitled to file a civil enforcement procedure before the civil courts to collect damages. In other words, the offended party is not obliged to file a criminal lawsuit; but if it does, it can later enforce the final criminal decision before the civil courts to collect damages.

The criminal law itself in Brazil provides the following sanctions, which are generally applicable to all acts of unfair competition: three months to one year in detention, or a fine. This light penalty makes the misdemeanour courts competent to rule on industrial property crimes and also allows the replacement of the detention penalty with alternatives, such as making a donation to a local charity. (Indeed, no cases of detention are known in the area of trade secret violations.) The fine's amount is measured in terms of the current minimum wage in Brazil, and currently this means a range for the fine of BRL26.26 right up to BRL14,184,000 (ie, from as little as US$7 right up to US$3.7 million). The actual fine to be imposed is determined by the judge in the case in conformity with the case's circumstances. The fine is paid to a public fund.

It must be highlighted that unfair competition crimes do not fall within the competence of the public prosecutors, which means that it is up to the offended party to seek criminal remedies.

If the offender is an employee, the Labour Law allows his dismissal without the right of receiving the standard compensation.

3. Procedural aspects under both criminal and civil law

3.1 Enforcing trade secret rights in Brazil

Although this is rarely used in trade secret cases, an amicable settlement of the dispute may be sought by serving a warning cease–and-desist letter to the infringer. Other than trying to have the case solved by alternative litigation methods, such as arbitration and mediation, the remaining path is to file a lawsuit against the offender.

A plaintiff may file a criminal complaint or a tort civil action, the latest being the more common alternative because the standard of proof is not as high as in criminal actions and financial compensation cannot be obtained before penal courts. A criminal complaint can be brought within six months counted from acknowledgement of the crime by the victim; a civil complaint can be brought within five years counted from acknowledgement of the violation by the victim.

3.2 Customs measures

Section 198 of the Industrial Property Law limits border measures to trademark infringement, as permitted by the TRIPS Agreement. This provision allows Brazilian customs authorities to seize counterfeit merchandise *ex officio* if it is suspected that they infringe trademark rights. Therefore, in principle only judicial remedies are available to cease the importation of goods that allegedly infringe trade secrets. However, in some specific cases the owners of patents, designs, trade secrets and other intellectual property rights may allege customs and tax legislation infringement in order to request that border measures be taken against the infringer – but with no certainty of success since this issue has still not matured in the Brazilian legal system.

3.3 Courts for actions involving the breach of trade secrets

Breaches of trade secrets fall within the jurisdiction of state civil trial courts. Some states, such as Rio de Janeiro, have business-specialised civil trial courts in important cities. Generally, though, complaints need to be filed before the ordinary civil trial courts. Aspects of intellectual property, such as trade secrets, are not common issues in the Brazilian courts' routine, which means that, by and large, trial court judges are not very familiar with matters in these areas.

Quite often, actions for breach of trade secrets have been brought at criminal and labour courts that are not specialised. The choice of the court (whether civil, criminal or labour) depends on the objectives and strategies of the case.

Using foreign case law as examples to support claims is not usual in Brazilian legal practice, unless it is shown as part of a national scholarly thesis introducing or proposing new solutions. Similarly to the behaviour of the Brazilian Patent and Trademark Office, judges may not be willing to consider foreign precedents as relevant factors while performing their duties; such precedents can, however, serve at least as a reference point.

In the absence of a Brazilian statutory provision, a judge is expected to decide the case in accordance with analogy, current use and the general principles of law, as foreseen in Article 4 of the Introductory Law to the Civil Code (Decree-Law 4657/42).

3.4 Procedure under civil proceedings

Ordinary first-instance civil proceedings begin with the filing of a complaint, which may feature a preliminary *ex parte* injunction request, either to produce or secure evidence or to protect the trade secret (see section 3.5 below). Subsequently, the defendant is summoned to present its defence, which can consist of replying to the merits, disputing the jurisdiction, challenging the injunction and/or making counterclaims.

Afterwards, an evidence phase is opened, during which witnesses may be heard in person, documents may be presented and discovered, and a technical examination by court's nominated expert can be commissioned. If a party does not show a requested document nor legally justifies non-compliance, the judge may assume as true the allegations that the other party intended to prove with the discovery of such document. When the document is held by a third party, the court may issue a search–and-seizure warrant to collect it if the third party refuses to show it or does not properly justify any refusal. Parties may indicate their private experts to assist the court's specialist(s), as well as present their questions for consideration.

Once the evidence phase has ended, the case is ready for the court's final verdict. A single trial court judge rules on all issues; there is no civil jury in Brazil. The judge is free to assess the evidence and make his conclusions, provided that he properly gives the grounds for his decision.

The whole procedure can last from one to three years (or sometimes more), depending on the complexity of the subject matter, the necessity of expert analysis and the state where the case is being brought.

Notwithstanding the foregoing, it should be noted that the new Brazilian Civil Procedure Code, which should come in force in 2016, will introduce some slight changes to the general procedure to be followed. Under the new code, for instance, after service of the court papers a defendant will be summoned to attend a conciliation meeting and will only have to present its defence after the eventual failure of conciliation negotiations. Cross-examination of witnesses – an old request of legal practitioners – is also contemplated by the new code. Furthermore, if the technical subject matter is of low complexity, parties will have power under the new code to jointly appoint their expert to perform a more simple analysis.

3.5 Preliminary relief available

Preliminary reliefs can be awarded, sometimes *ex parte*, during proceedings in order to try to restrain the defendant from infringing the trade secret. Besides ordering the defendant to cease the use (sale, purchase, importation, manufacture, exportation, divulging etc) of the trade secret, under a daily fine in case of non-compliance, a court may also grant a search-and-seizure warrant to collect all the infringing goods in the possession of the infringer and the payment of a bond to assure the payment of probable compensation at the end of the action. An order to withdraw all infringing merchandise from the market is also an option.

Standard general prerequisites to obtain an injunction, which are *fumus boni juris* and *periculum in mora*, apply to trade secret cases. Hence, a plaintiff must be capable of

demonstrating the probable cause of his claims as well as the imminent damage to be borne by him unless the injunction is granted. Probable cause is easier to demonstrate when there is a patent or trademark registration in force, which naturally is not the case for trade secrets, and so stronger evidence is generally required for the latter. The new Brazilian Civil Procedure Code will also allow injunctions grounded solely on *fumus boni juris*, but one cannot foresee to what extent the courts will be willing to apply this newly available injunction in industrial property actions.

In addition to preliminary injunctions, a separate and previous discovery action can be filed to inspect a potential infringer's premises and/or uncover documents, equipment or goods in the possession of the defendant that may constitute evidence in the main action. The main action must be filed no later than 30 days after this preparatory discovery procedure is initiated by the claimant.

3.6 Right to appeal

Preliminary injunctions, as well as other provisional decisions during the proceedings, may be challenged through interlocutory appeals, which can be immediately filed before the relevant state's Court of Appeals. Appellant must demonstrate that the provisional decision is likely to cause severe and irreparable damage if kept in force in order to have the appeal accepted for judgment by the court.

After a trial court's final ruling, the merits may be challenged through an ordinary appeal to the state Court of Appeals, which will review both factual and legal issues. No special requirements, beyond respecting the legal term for filing and the payment of court fees, have to be fulfilled in order to make an appeal against a first-instance verdict.

Special appeals to the superior courts (the Superior Court of Justice and the Supreme Court) are also available, as a third instance. Nevertheless, these appeals are limited to legal issues only. Since matters of fact cannot be re-discussed in the superior jurisdictions, such appeals must convey violations of the federal law or the Constitution in order to be admitted for judgment.

The period until judgment of an appeal varies according to the state where the case is brought. In Rio de Janeiro, one can expect a period of 6–12 months for the ruling of an interlocutory appeal and between one or two years for an ordinary appeal. In the state of São Paulo, on the other hand, interlocutory appeals may take up to two years to be ruled on, while an ordinary appeal is ruled on in about three years. Finally, the two superior courts may take around five years to rule on a special appeal.

3.7 Legal costs

In judicial actions, court fees vary depending on the amount claimed as damages and on the state where the case is brought. Normally, these are fixed at 2% of the value of the action as defined by the plaintiff. Costs and legal fees can be partially recovered from the defeated party, depending on the judge's decision on the specific issues. As an example, for a standard claim of BRL50,000 (approximately US$13,100) the total legal fees will be around BRL2,000 (approximately US$520).

Attorneys' fees are only partially awarded, to be paid by the defeated party. These can vary a lot, depending on the attorney involved, but a typical amount would be around BRL60,000 (ie, somewhere around US$16,000).

4. General

4.1 Forthcoming legislation

Important forthcoming legislation is the new Civil Procedure Code, which should come into force during 2016.

Bill 236/12 is currently pending at the Senate as the outcome of a project to revise Brazil's Penal Code, including crimes involving the violation of intellectual property rights.

4.2 Trends and hot topics

As it can be seen from statistics issued by the BPTO's Contracts Commissioner, the importance of business know-how (ie, industrial secrets) by means of technology supply and technical assistance agreements is significant for the Brazilian market. The importance of business know-how surpasses other main categories of licence relating to industrial property rights, including patent licences, trademark licences and franchise agreements.

Brazilian legislation has a somewhat unique understanding with regard to know-how – namely that it cannot be temporarily licensed, only assigned or sold. Thus, the BPTO records know-how contracts taking into consideration the need of the recipient to absorb the technology. As a general rule, these agreements are recorded by the BTPO for a maximum five-year term of validity, in accordance with Article 12 of Law 4131/62, and may be renewed for an identical period provided the parties are in a position to justify the renewal request. The renewal application form should be submitted by the parties to the BPTO prior to the last day of validity of the first five-year term.

Emphasising the legal nature of know-how in Brazil is essential. While US and other jurisdictions attribute a right of property to trade secrets, in Brazil undisclosed information does not generate a property right and no legislative harmonisation can be foreseen in this regard. As a consequence, the legal nature of know-how agreements is not considered, from the BPTO's perspective, to be a temporary licence but a definitive assignment of rights. Therefore, the parties need to consider the following main impacts: the price of the transaction; its

taxation; and the duration of a duty of confidentiality. In other words, trade secrets regimes are so different in Brazil that any contractual approach on such an asset should take into account the parties' necessity to jointly examine their plans and discuss contractual clauses that can achieve the maximum benefit for both parties.

4.3 Works of reference

This chapter has been based on two publications:

- Fekete, EK, *O Regime Jurídico do Segredo de Indústria e Comércio no Direito Brasileiro* (Rio de Janeiro, Forense, 2003); and
- Fekete, EK, "*Know how to License in Brazil: A Pragmatic Approach to Cultural and Legal Differences affecting Know How Licensing Agreements*", an article presented by the author to AIPLA on the occasion of its Midwinter Institute panel on the topic of License Negotiations with Foreign and Multinational Entities – Eliminating Bias for a successful Outcome, January 30 2015.

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