A note on social efficiency as a standard of Unfair Competition Law in Brazil

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My contention is that an Unfair Competition claim under Brazilian Law is not dependent of infringement of any exclusive rights. I shall so indicate below.

Unfair competition, under Brazilian law, is a quite separate cause of action, when compared to any exclusive right. The Supreme Court said so in a profusely quoted decision:

> *"Free competition, as all freedom, is not unlimited; its right meets it limits on the precepts of the other competitors, and it supposes an honest and lawful exercise of one´s own right expressing the professional probity. Exceeded these limits arises UNFAIR COMPETITION ... It will be found within the scope of unfair competition those acts of fraudulent or dishonest competition, which undermines what is held to be correct or normal in the business world, though not directly infringing PATENTS or REGISTERED DISTINCTIVE SIGNS"* [1].

Therefore, under Brazilian Law, an Unfair Competition claim is not dependent on the infringement of exclusive rights.

In a recent expert report offered to a Brazilian Court on a Internet Game issue, I refrained to state any copyright grounds whatsoever, precisely to stress this

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[1] Supremo Tribunal Federal "A livre concorrência, com toda liberdade, não é irrestrita, o seu direito encontra limites nos preceitos dos outros concorrentes pressupondo um exercício legal e honesto do direito próprio, expresso da probidade profissional. Excedidos esses limites surge a CONCORRÊNCIA DESLEAL... Procura-se no âmbito da concorrência desleal os atos de concorrência fraudulenta ou desonesta, que atentam contra o que se tem como correto ou normal no mundo dos negócios, ainda que não infrinjam diretamente PATENTES ou SINAIS DISTINTIVOS REGISTRADOS". (R.T.J.56/ 453-5)

independence in face of the Software Law and Copyright Law-grounded causes of action. Thus, I stated at the start of my opinion:

> *"A copy of benefits by imitation of others is not itself illegal. As we shall see, it is illegal to copy essentially in two circumstances:*
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> > *When the copied element violates a ban resulting from an unconditional exclusive right , as those covered by the Copyright Law, or Law of Software, or the Industrial Property Code.*
> >
> > *When the act of copying (not exactly the copied item) is a deviation from the competitive standard incompatible with unfair competition.*
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> *Being aware that illustrious jurists will face the former case, this opinion shall tackle the second one."* [2]

Therefore, copying by itself is a fact and not necessarily illegal [3], which leads to three distinct consequences: a possible violation of exclusive rights, a deviant behavior prohibited under Unfair Competition rules, or simply a competitive act taking public domain elements as free to use. I quote: "The whole mission of the law on the imitation is not thereby ban the copy, but have a careful balance between efficiency of copying and efficiency of banning the copy, when the prohibition has a social function. And distinguishing between the two cases, according to what the legal standards prescribe, is all the Art." [4]

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[2] "A cópia por imitação de prestações de terceiros não é por si só ilícita. Como se verá, é ilícita a cópia essencialmente em duas circunstâncias: (a)Quando o bem copiado infringe uma interdição incondicional resultante de um direito de exclusiva, como os cobertos pela Lei Autoral, ou Lei de Software, ou Código da Propriedade Industrial. (b) Quando o ato de cópia (e não exatamente o item copiado) constitui um desvio concorrencial incompatível com a norma de concorrência desleal. Ciente que ilustríssimos juristas se defrontarão com a primeira hipótese, este Parecer se demorará na segunda delas."

[3] I mention in my opinion the U.S. Supreme Court case of Bonito Boats, where this statement is made, and is quite familiar to Intellectual Property Courts in Brazil. "From their inception, the federal patent laws have embodied a careful balance between the need to promote innovation and the recognition that imitation and refinement through imitation are both necessary to invention itself, and the very lifeblood of a competitive economy. (…)" Bonito Boats v. Thunder Craft Boats, 489 U.S. 141 (1989), in BARBOSA, Denis Borges, BARBOSA, Ana Beatriz Nunes, GRAU-KUNTZ, Karin, A Propriedade Intelectual na Construção dos Tribunais Constitucionais, Lumen Juris, 2009.

[4] "Toda a missão do direito no plano da imitação não é, assim, vedar a cópia, mas exercer um balanceamento cuidadoso entre a eficiência da cópia e a eficiência de vedar a cópia, quando essa vedação

And further: “But nothing justifies the confusion in the competition, which makes the consumer or a third party to take the products of one person by the products of another party. It said by the Supreme Court of the United States - if there is no patent or other proprietary right - the defendant can copy the property of the author to the smallest detail - but cannot create confusion in public perception as to the origin of goods” [5].

I mentioned the decision of the (Federal) Superior Court of Justice:

> *("...) The unfair competition presupposes the goal and the potential to create confusion as to the origin of the product, deviating the clients"* [6].

On the statutory grounds of Unfair Competition:

> *“In the Industrial Property Law of 96, although we have not explicitly in statute the definition of what constitutes unfair competition, in Article 195 of the Act there is protection against the crimes of unfair competition, noting, in pertinent:*
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> *Article 195. Commits the crime of unfair competition who:*
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> *III - uses fraudulent means to divert, for their own benefit or others, clients of others;*
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> *Penalty - detention of 3 (three) months to 1 (one) year or a fine.*
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> *In the civil context, the definition is:*
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> *Article 209. The injured party is entitled to have damages in compensation for losses caused by acts of violation of industrial property rights and unfair*

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exerce uma função social. E distinguir entre as duas hipóteses, segundo o que as normas jurídicas prescrevem, é toda a arte.”

[5] “Mas nada justifica a *confusão* na concorrência, que faça o consumidor ou terceiro tomar os produtos de uma pessoa pelos produtos de outra. Já disse a Suprema Corte dos Estados Unidos que – se não existe patente ou outro direito exclusivo – o réu pode copiar os bens do autor até o mínimo detalhe – mas não pode criar confusão na percepção do público quanto à origem dos bens”. The footnote reads: “O’Connor, J., Relator, unanimous decision from the court. From the same decision mentioned about: “The defendant, on the other hand, may copy [the] plaintiff ’s goods slavishly down to the minutest detail: but he may not represent himself as the plaintiff in their sale”. Bonito Boats, Inc. V. Thunder Craft Boats, Inc., 489 U.S. 141, 157 (1989) [quoting Crescent Tool Co. v. Kilborn & Bishop Co., 247 F. 299, 301 (2d Cir. 1917) (L. Hand, J.)]”

[6] (...) A concorrência desleal supõe o objetivo e a potencialidade de criar-se confusão quanto a origem do produto, desviando-se clientela (Resp. 70.015-SP, rei. Min. Eduardo Ribeiro, DJ 18.08.1997).

competition not provided for in this Act, which are liable to harm the reputation or business of other persons, or to create confusion between commercial or industrial establishments, or service providers, or between the products and services offered in trade." [7].

And, on the independence of claims:

"Intangible property, by itself, is never protected by the mechanisms of unfair competition. What is protected, as we shall see, is the competitive position of those who use, exclusively in fact, or not exclusively even in fact, of goods, intangibles, information, or any other items of interest to compete.

So, there is no direct legal requirement in order that such use of goods or other items may receive the influx of protected fair competition. The useful technique to manufacture and sell certain product can be completely devoid of novelty or inventive step. What matters is the competitive position of fact, to allow a reasonable expectation of revenue.

The various forms of originality - and novelty - are unique requirements for the recognition of exclusive rights. In unfair competition, the protected value is simply in the fair conduct of competitors." [8]

Supporting my opinion, I quote a decision of the São Paulo State Court:

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[7] "Na LPI de 96, não obstante não termos expressamente na lei a definição do que seja concorrência desleal, consta do artigo 195 da lei a proteção contra os crimes de concorrência desleal, notando, no pertinente: Art. 195. Comete crime de concorrência desleal quem: III - emprega meio fraudulento, para desviar, em proveito próprio ou alheio, clientela de outrem; Pena - detenção, de 3 (três) meses a 1 (um) ano, ou multa. No âmbito civil, a definição está: Art. 209. Fica ressalvado ao prejudicado o direito de haver perdas e danos em ressarcimento de prejuízos causados por atos de violação de direitos de propriedade industrial e atos de concorrência desleal não previstos nesta Lei, tendentes a prejudicar a reputação ou os negócios alheios, a criar confusão entre estabelecimentos comerciais, industriais ou prestadores de serviço, ou entre os produtos e serviços postos no comércio."

[8] "Um bem incorpóreo, por sim mesmo, nunca é protegido pelos mecanismos da concorrência desleal. O que se tutela, como se verá, é a posição concorrencial de quem se utiliza, com exclusividade de fato, ou sem nenhuma exclusividade, mesmo de fato, de bens, incorpóreos, informações, ou quaisquer outros itens de interesse concorrencial. Assim, não se exige qualquer requisito jurídico direto para que essa utilização de bens ou outros itens receba o influxo da proteção da concorrência leal. A criação técnica útil para fabricar e vender certo produto pode ser completamente desprovida de novidade ou atividade inventiva. O que importa é a posição concorrencial de fato, que permita uma expectativa razoável de receita. As várias formas de originalidade – e de novidade – são exigências singulares para o reconhecimento de direitos exclusivos. O valor protegido na concorrência desleal é simplesmente o comportamento leal dos concorrentes."

"Reflecting on the parasitism, Wilson Pinheiro Jabur, quoting Professor Denis Barbosa, teaches that "... just in those cases that may induce confusion among the public as to the origin of the products or services, or when it may denigrate the original owner, or cause the dilution of their brand in the market, there would be anything against what one might argue, in this case, an inequity of the rule of free competition. That is to say, it is not the parasitism, but the injury on the parasited one that [the law] would aim to prevent and compose "(Barbosa, 2003, p.321) Industrial Creations, Trade Secrets and Unfair Competition, Ed.Saraiva series GVIaw).

"It must be emphasized that the slavish copying or parasital use, or the imitation of the characteristic features of a product or service, or establishment, or the intangibles of a company, when done in its functional aspects, necessary for operating a similar business or for the preparation of a product or providing a service, this act is no doubt an act of parasitic competition, but this act is not by itself a tort or unfair competition. "

The parasitic competition will be unfair competition, as noted herein, when there is the possibility of confusion between products, services and facilities of different origins." [9].

And, from the same Court, other panel:

"A competitor may practice unfair competition when it takes the effort of another, which excels in the difficult task of constantly innovate and differentiate itself in its market segment by copying the non-functional characteristics of the business,

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[9] "Discorrendo acerca do parasitismo, Wilson Pinheiro Jabur, citando o Professor Denis Barbosa, leciona que "...apenas no caso de que se possa induzir confusão entre o público quanto à origem dos produtos ou serviços, ou quando possa ocorrer o denigramento do titular original, ou ainda diluição de sua marca no mercado, se teria algo contra o que se poderia argüir, no caso, alguma iniqüidade da regra da livre concorrência. Ou seja, não é o parasitismo, mas a lesão sobre o parasitado que se visaria prevenir e compor" (BARBOSA, 2003, p.321) (Criações Industriais, Segredos de Negócio e Concorrência Desleal, Ed.Saraiva, série GVIaw). "Frise-se que a cópia servil ou o aproveitamento parasitário, ou seja, a imitação dos elementos característicos de um produto ou serviço ou estabelecimento, do aviamento de uma empresa, quando feito em seus aspectos funcionais, necessários para o funcionamento de um negócio semelhante, ou para a elaboração de um produto, ou prestação de um serviço, até pratica um ato de concorrência parasitária, mas este ato não é per si um ato ilícito nem de concorrência desleal." A concorrência parasitária será a concorrência desleal, quando constatada neste ato a possibilidade de confusão entre produtos, serviços e estabelecimentos de origens distintas. (TJSP, APELAÇÃO CÍVEL COM REVISÃO n° 648.585-4/9-00, Sexta Câmara de Direito Privado do Tribunal de Justiça do Estado de São Paulo, Des. Reis Kuntz, 06 de agosto de 2009)."

product or service that competitive, with the aim of saving effort and money and divert the clientele of others, re-creating confusion in the minds of consumers" [10].

Therefore, the standard of illegal copying is a behavior that is not efficiently directed to competitive ends, but to obstructively create information asymmetries. I quoted in this context a leading case from São Paulo Court, much cited by other decisions:

"(...) The security apparatus of a product differentiator is not based solely on the need to protect people uneducated and ignorant, but rather in the regulation of constructive activity, avoiding that plagiarism and copies stay immune before the loss of well-known and winning marks. Although the ethics of trade may qualify concepts, so that the rigor in the examination of productive initiatives do not hamper the investment machine, which is crucial for the circulation of wealth, it shall not be tolerated the disloyalty that, sometimes, is externalized by copying product stigmatized by the activity of the competitor." [11]

The test of inefficient, thus illegal, behavior is the lack of reason of copying for functional or otherwise competitive purpose. If copying is unneeded for competitive purposes, but employed for misdirecting clients (or other obstructive reason) a finding of Unfair Competition should be had. I mentioned a series of São Paulo Court decisions, but quoting just one for our specific purpose:

"It must recognized, however, that the obvious similarities ***were not necessary, nor comply with any relevant social purposes.***

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[10] "Um competidor pratica a concorrência desleal quando se aproveita do esforço de outro, que se esmera na difícil tarefa de constantemente inovar e se diferenciar no seu segmento mercadológico copiando as características não funcionais do negócio, produto ou serviço daquele competidor, com o escopo de poupar esforço e dinheiro e desviar a clientela alheia, recriando confusão na mente do consumidor. (A Concorrência Desleal, texto de Patrícia Carvalho da Rocha Porto, Especialista em Direito da Propriedade Industrial -UERJ)." TJSP, AC 994.06.020031-4, 4ª Câmara de Direito Privado, . Des. Teixeira Leite, julgado em 29.04.2010.

[11] "(...) a segurança de um aparato diferenciador de produtos não está baseada somente na necessidade de proteger pessoas incultas e ignorantes, mas, sim, na regulamentação da atividade construtiva, evitando que copias e plágios fiquem imunes diante dos prejuízos das marcas notórias e vencedoras. Embora a ética do comércio permita abrandar conceitos, para que o rigor no exame das iniciativas produtivas não emperre a máquina de investimentos, fundamental para a circulação da riqueza, não pode ser tolerada a deslealdade que, em algumas vezes, é exteriorizada pela copia de produtos estigmatizados pela atividade da empresa concorrente. TJSP, Apelação com revisão 2813834200, Quarta Cãmara de Direito Privado, Des. Ênio Zuliani, Julgado em 15/2/2007.

One could even argue that the strawberry fruit has certain association with cream. What I dislike is not the isolated use of the fruit, but added to the similarity of blue and white, the stream of milk, and finally the entire composition of the package, which undoubtedly refers to the competing product.

It is clear that there was an association between the products, due to the similarity of the arrangement of colors and images between them, and I am convinced that this resemblance was deliberately sought by the defendant, by changing the packaging, serving market research.

Incontrovertible fact, further, that the defendants changed their packaging after market research. I see no plausible reason for the change, bringing new packaging that conceived and built by the market leader.

The protection the mark must be viewed in two ways. One is to avoid the error, consumer confusion, another is to avoid free riding, the unjust enrichment at the expense of brand prestige of others" [12].

As I mentioned, Unfair Competition law in Brazil does not require the existence of any exclusive rights whatsoever. They may be totally independent claims, as our Supreme Court say. Moreover (and this is a new aspect of the issue), in cases of confusive parasitic competition, i.e., when the imitation is not necessary for economic efficiency, when attempting to appropriate the prestige of others through services designed to confuse the public, the combined violation of exclusive rights and repression of the competitive illegal act is possible.

Therefore, even in cases where no violation of our Software Law or our Copyright Law is found, an Unfair Competition claim may be entertained. But even when a

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[12] Forçoso reconhecer, porém, que as evidentes semelhanças existentes não eram necessárias, nem cumpriam qualquer fim social relevante. Pode-se até alegar que a fruta morango guarda certa associação com creme de leite. O que me desagrada não é o uso isolado da fruta, mas sim somado à similitude de cores azul e branco, o jorro do leite, enfim toda a composição da embalagem, que remete inegavelmente ao produto concorrente. É notório que haveria uma associação entre os produtos, decorrente da similitude da disposição das cores e imagens entre ambos, e estou convencido que essa parecença foi deliberadamente desejada pela ré, ao alterar as embalagens, atendendo a estudo de mercado. Fato incontroverso, mais, que as rés alteraram suas embalagens, após pesquisa de mercado. Não vejo razão plausível para a mudança, aproximando as novas embalagens daquela idealizada e construída pela líder de mercado. A proteção à marca deve ser vista sob duplo aspecto. Um é evitar o erro, a confusão do consumidor; outro é evitar o parasitismo, o enriquecimento sem causa à custa do prestígio de marca alheia." (TJSP, Ac 994.07.115467-5, 4o Câmara de Direito Privado do Tribunal de Justiça de São Paulo, Des. Francisco Loureiro, 25 de fevereiro de 2010).

violation of such laws *is* found, a separate Unfair Competition claim is to be accepted, on entirely distinct grounds. One may violate a copyright, for instance, by blunt unauthorized copying, with no scintilla of confusion. Or may engage in subtler violations of software or copyright statute *and* or even *for the purposes* of misdirecting clients.

As mentioned before, under Brazilian Law, copying by itself is not illegal, and is merely a fact. It is not just by finding copy that one would be held in violation of copyright. Thus, in the event of finding violations of copyright in a copy that an Unfair Competition claim would be determined. Furthermore, *not* finding a violation of the Copyright or Software Law would not prevent an Unfair Competition violation from being asserted.

If there is confusion of clients or not in any specific case is essentially a matter of evidence, to be decided by the Brazilian Court. However, my final contentions in my expert opinion addresses the issue of what may be held as being confusion in this context:

> *"The parasitic behavior and confusion is prohibited by Art. 195, III, of Law 9.279/96 and must be vigorously repressed, in which it discourages the quality and innovation in an economically important market. It should be suppressed because it confuses the consumer, because it makes unclear the competitive differences and increases information asymmetries.*
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> *Fooled by illegal loan of prestige, the consumer becomes less able to choose between providers and products. If the eventual failure of the copier is associated with the image of the copied one, this latter loses, in a way that is inefficient for the economy as a whole, harming the consumer´s ability to choose a better product.*
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> *Whatever the best product, the confusion also tarnished the court and consumer choice. More than anything, a confusive and systematic parasitism as noted here, if not repressed, discourages competition through one´s own efficiency, damaging the basic value of free enterprise."*