

Brazil

The liability of online auction website operators and search engines are among the most controversial and most important issues in relation to trademarks online. So far, the Brazilian courts have not considered either in much detail

According to InternetWorldStats.com, there are over 50 million internet users in Brazil, which amounts to 26% of the population. The continuous development of new technologies, such as third-generation mobile telephones, is likely to boost internet use further in the near future.

These figures have made the Internet a vital channel for the marketing and commercialization of products and services. On the flip side, though, the Internet also provides fertile ground for trademark infringement.

Most online trademark disputes concern the adoption of marks as domain names. Although domain names are not the focus of this article, it is important to note some peculiarities of the country-code top-level domain name for Brazil, 'br', which is administered by Registro.br/NIC.br.

There is no alternative dispute resolution system under the 'br' domain, even though the general assembly of the Brazilian Intellectual Property Association approved a resolution in 2000 recommending the adoption of such a system. Many trademark practitioners and owners see this lack of alternative to court proceedings as a significant shortcoming.

In an effort to address this matter partly, Registro.br/NIC.br created a system known as the 'domain release process with a distinction option'. Under the system, domain name registrations that are up for renewal are published periodically. Any interested party submitting a request for registration may put forward a specific 'distinction' that this party holds in a name which is identical or similar to the domain name. This 'distinction' can be a registration for an identical mark or a similar trade name that has been used for at least 30 months. Therefore, when two or more candidates apply for the same domain name, the party claiming a distinction may obtain the name if it presents evidence of a trademark

registration or trade name use. If more than one party claims a distinction, the domain name is not registered in the name of any of the parties at that point; instead, it becomes temporarily unavailable and later goes through another release process. If this happens on more than six consecutive occasions, the domain name is blocked and the parties interested in acquiring it will have to take the issue to court.

The system is far from perfect, which means that it is crucial for companies to administer their domain name portfolios with utmost care, coordinating the adoption of new marks with the registration of local domain names.

Turning to other online issues, this article will now discuss two recent cases dealing with the liability of online auction sites for the sale of counterfeit products and keyword advertising.

Contributory liability

Even though the first case raised the issue of the liability of the administrator of a brick-and-mortar shopping centre for the sale of counterfeit goods on its premises rather than an online auction website, lessons can be learned from the ruling. In a unanimous decision, the Sixth Panel of the São Paulo State Court of Appeals affirmed in part a decision finding that the administrator of a São Paulo shopping centre was liable for the sale of counterfeit clothing and clothing accessories in the mall (Case 502.136-4/5-00, February 14 2008).

After investigating allegations that counterfeiting activities were taking place in some of the outlets located in the shopping centre, the police raided the centre on several occasions.

In his defence, the administrator claimed that:

- he was not involved in the commercialization of the counterfeit goods;
- he lacked police power and had no duty to supervise the activities of the retailers;
- he had no access to the goods and could not prevent counterfeiting activities; and
- the mall was duly authorized to operate by the local authorities.

The court found against the administrator on the following grounds:

- The contractual relationship between the administrator and the retailers was based on the revenue-sharing model under which the parties had an integrated relationship;
- The contracts between the administrator and the retailers stipulated that:
 - the administrator had the right to inspect the shops; and
 - the retailers must not engage in unlawful activities;
- The contracts were executed with Chinese immigrants holding temporary visas, which hindered the filing of criminal or civil actions; and
- The administrator must have been aware of the presence of counterfeit goods in the mall.

According to the court, the administrator had the right and duty to inspect the premises. Moreover, as the administrator shared profits with the retailers, he was liable for the lack of supervision of the outlets.

The court ordered the administrator to pay a daily fine in case of failure to take reasonable steps to prevent the sale of counterfeit goods on the premises. The court set the fine at a level (\$30,000) which ensures that it is a sufficient deterrent, taking into account the following factors:

- The administrator had the right and power to inspect the outlets and terminate the leasing agreements; and
- The amount of the fine must not be so high as to constitute undue enrichment of the plaintiffs.

Relying on previous case law of the Superior Court of Justice, the São Paulo court also ordered that the administrator pay \$30,000 in damages to the plaintiffs in order to compensate for the harm caused to the reputation of the marks involved.

The decision may still be appealed, but should it become final, it would set a strong precedent for the fight against counterfeiting on internet auction sites. This is because online auction sites have many elements in common with the case

discussed above, including the revenue-sharing model and the power to take measures in agreements.

However, because the above case is not specific to the Internet, it is unclear how the courts would factor in the notice and take-down procedures now available on most online search engines and auction sites. What is clear is that a reasonable effort to curb infringement more effectively is necessary.

Keyword advertising

Although cases involving keyword advertising are rare in Brazil, the issue may be seen as a trademark violation and unfair competition practice prohibited under the general clause of Section 195(III) of the Brazilian Industrial Property Law (9279/96). Wronged parties also have recourse under the Paris Convention for the Protection of Industrial Property.

Having said this, it is important to distinguish cases in which sponsored links are clearly labelled as such from situations where the results are presented without a clear separation between sponsored and unsponsored links. In the latter situation, the sponsored link can be considered trademark infringement, as well as an act of unfair competition. Depending on the circumstances, it may also amount to a violation of consumer law regulations against deceptive advertising.

The situation is more complex in the first case, where search engines sell third-party marks as keywords to trigger sponsored links (ie, advertising) that are prominently presented as such. According to Section 131 of the Industrial Property Law, the protection afforded to a trademark extends to the use of the mark on papers, printed matter, advertisements and documents related to the activity of the owner.

It is therefore possible to argue that:

- the mark is being used in ads without the consent of the owner; and
- such use constitutes an act of unfair competition or undue enrichment because the internet user entering the mark as a search term will be diverted to the website of a competitor of the mark owner.

It should be noted that Section 132 of the Industrial Property Law expressly provides that a trademark owner may not prevent merchants or distributors from using their own distinctive signs together with the mark of the product when promoting or commercializing that product.

Thus, the advertiser and the search



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engine owner can argue that their use of the keyword does not amount to trademark infringement, as long as the ads triggered by the use of the trademark as a keyword are clearly flagged as sponsored links on the search results page to inform the public that the trademarked products are for sale on the website of the advertiser (ie, a distributor or merchant).

The Brazilian courts have issued very few decisions on keyword advertising. One of them is Criminal Action 591/97 of October 12 2008. Pistelli Engenharia Ltda filed the action before the First Criminal Court of São Carlos in the state of São Paulo against two of its former employees who, after leaving the company, established a competing business under the name of Fomatto Coberturas Especiais Ltda.

The defendants allegedly started a keyword advertising campaign on several well-known search engines using the terms 'Pistelli', 'Pistelli Engenharia' and 'Pistelli Engenharia Ltda' to trigger sponsored links to their new company Fomatto.

On the evidence, the court found that although free competition is one of the general principles warranted by the Brazilian Constitution, the law punishes anyone who unfairly competes on the market. According to the court, keyword advertising was misleading in this case because consumers searching for any of the terms bought by Fomatto – that is, the name of Fomatto's competitor – would be directed to a results page featuring a link to Fomatto's website in the first, or at least a prominent, position.

Therefore, the court considered Fomatto's entire online advertising campaign an act of unfair competition under Section 195(III), which prohibits the use of fraudulent means to divert, for one's own or a third party's benefit, another party's clientele.

Interestingly, the court dismissed the claim of unfair competition through use of a third party's trade name. The court found that Fomatto's use of Pistelli's name did not amount to the use of another party's trade name in the course of commerce.

Considering the absence of criminal record, the court sentenced the defendants to pay fines correspondent to one-fifth of the minimum annual wage. The decision was at first instance and at the time of writing still open to appeal.

The issue of keyword advertising is complex and the above decision was rendered under the specific facts of the case. Therefore, it is still uncertain whether other courts will follow this decision if the parties are not related (in the case above the defendants were former employees of the plaintiff) and the ad is clearly labelled as a sponsored link on the results page. [WTR](#)