

**Industrial Property and Competition Law: The Design
Protection of Automobile Spare Parts in Brazil.**

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1. Introduction

The present brief presentation intends to show the interaction between the protection of industrial property, especially industrial design, and the freedom of competition in the Brazilian legal system.

In order to facilitate this analysis, it was chosen the concrete case of the design protection of automobile spare parts, considering the different positions regarding this subject in the USA, European Union and Brazil.

First it will be necessary to situate the industrial property rights and antitrust law in the Brazilian legal system. A verification of the legal measures available in Brazil to balance the relation between industrial property and freedom of competition, especially in the case of design protection, is also provided.

2. Industrial Property Rights in the Brazilian Legal System

Brazil has a long legislative tradition in the area of industrial property, especially patents. As early as 1809 the Brazilian Regent Prince issued a permit by which inventors were encouraged to submit the plans of their inventions to the Royal Board of Trade, receiving in exchange therefore the exclusive privilege for fourteen years.

The present Brazilian Constitution from 1988 in its article 5, which defines the individual rights and constitutional guarantees, states among others that the law will grant privileges to inventions and protect industrial creations, i.e. industrial designs, considering the social interest and the technological and economical development of the country.

It is important to observe that article 5, as a constitutional guarantee, is not subjected to be abolished by any kind of constitutional amendment. In other words the constitutional guarantee of protection of industrial property rights in Brazil can only be suppressed through a new constitution.

There is, however, a harsh critic from Brazilian constitutionalists considering that at least the part referring to industrial property right should not be protected as a constitutional guarantee. Following their conception industrial property should be protected in the chapter dedicated to the economical order.

Issued in 1996 the present Brazilian Industrial Property Law covers the protection of patents, industrial designs, trademarks, geographical indications,

technology transfer and unfair competition. It has also a chapter dedicated to the crimes against industrial property.

The Law is in force since May, 1997 and regulates the protection of industrial designs in its articles 94 to 121. A industrial design registration remains in force initially for 10 years, being renewable for three successive terms of 5 years, totaling 25 years of protection.

At the Brazilian Patent Office after filing a design application, only a formal examination is performed, being the registration granted with its publication. Differently from other countries, an examination on the merits is possible after the registration by request of the holder, enhancing its enforceability in court, e.g. the granting of injunctions. The examination on merits verifies if the protected object complies with the legal requirements of novelty and originality. The novelty requirement in Brazil is of absolute nature and a registration is considered to be original when it results in a distinctive visual configuration in relation to other previous existing objects.

Presently a registration is granted within approximately 3 months from the date of filing and the Brazilian Patent Office is granting around 4 to 5 thousand registrations a year. An examination on merits takes presently 3 to 4 months.

The infringement of an industrial design is in Brazil a crime, as well as an illicit act punished by the civil law.

Summarizing it is possible within a short period of time (approx. 3 months without and 6 months with examination on merits) to have a design registration and an effective instrument to prevent third parties from manufacturing, using, offering for sale, selling or importing the protected object.

3. Competition and Antitrust Right in the Brazilian Legal System

Brazil is a market economy and the Brazilian Constitution in its article 170, referring to the general principles of the economical activity, professes as one of its main principles the freedom of competition.

The Brazilian Antitrust Office – CADE, which is directly linked to the Ministry of Justice was created in 1962 but became really effective only 30 years later with the opening of the Brazilian economy. According to the law (Law 8884/94) CADE will necessarily analyze and approve all negotiations involving concentration acts (control by one single company) which represent 20 % of the market or in which one of the parties has an annual gross income of more than US\$ 40 millions.

There are several recent notorious cases involving the Antitrust Office, one of them being the Nestle – Garoto (a major Brazilian chocolate manufacturer) case. After 2 years of administrative proceedings CADE decided that the acquisition of Garoto by Nestle would represent a domination of nearly 54% of the chocolate market, in certain areas up to 100%, and would thereby severely hinder competition. Nestle was compelled to sell Garoto within 150 days. Presently Nestle is questioning this decision in court.

Another notorious decision of the Antitrust Office involving industrial property was the Kolynos case. Kolynos do Brasil was bought by Colgate-Palmolive for nearly US\$ 760 millions (it was part of a US\$ 1,1 billion worldwide acquisition). Procter & Gamble complained at the CADE that the acquisition would represent a concentration of nearly 80% of the toothpaste market in Brazil. In its decision CADE approved the business under the condition that Colgate would not use the trademark Kolynos on its toothpastes in Brazil and would also not import toothpastes with the trademark Kolynos to Brazil for four years. One year after this decision the toothpaste prices in Brazil sunk by nearly 10%, apparently due to an increase in competition.

4. Interaction of Industrial Property and Competition Right in Brazil

Brazil is a founding member of the Paris Convention and WTO with its TRIPS agreement.

The Paris Convention under its article 5 has a clear provision (items 2 to 4) for the use of compulsory license to prevent the abuse of industrial property rights.

The TRIPS agreement has at least two different provisions directed to compulsory licensing with its resulting balance between competition law and industrial property. Article 8.2 referring to principles of the treaty defines that the member states may take appropriate measures to prevent the abuse of industrial property rights. Article 31 is directed to compulsory licensing, not restricting the grounds or reasons for its granting.

The Brazilian Patent Law contains 7 different reasons for compulsory licensing of patents, among others the abuse of rights or abuse of economic power and failure to meet the market demand.

The Brazilian Antitrust Law (Law 8884/94) has the provision that in the case of public interest the infringer of the economical order will have his patent compulsorily licensed.

From the above it is clear that the Brazilian legal system links the industrial property rights with the antitrust/competition right through the measure of the compulsory license.

The compulsory license is the legal instrument chosen to compensate any abuse of an industrial property right, bringing the relation between exclusive privilege and freedom of competition back to a balanced position.

The proprietor of a patent is not deprived from its property, but is compelled to accept a licensee that will provide an alternative supply source to the market.

It is, however, interesting to observe that there are no legal provisions, neither in the Paris Convention, nor in TRIPS or in the Brazilian Industrial Property Law, to apply compulsory licensing to industrial designs.

5. Abuse of Rights

The doctrine of the abuse of rights was already known from the Romans. One of the best ways to define it is through Cicero's quotation "*Summum jus summa injuria*", which could be freely translated as extreme law is extreme injustice.

The major development of the doctrine of the abuse of rights was made, however, at the end of the 19th and beginning of the 20th century in the context of the absolutism of the individual rights of the Napoleon Code and the growing idea of the social function of the property. One of the major developers of the doctrine was Louis Josserand, who defined that an abuse of rights exists, whenever the exercise of a right within the limits and conditions objectively imposed by the law produces a damage.

One of the first and mostly referenced case of abuse of rights was the *affaire Clement Bayard*, a land owner in Pierrefonds in France, who was condemned in 1913 for installing in his grounds long wooden sticks with razor sharp metal tips with the intention of tearing balloons starting from a nearby hangar.

The abuse of rights has found place in nearly all civil law systems, for example in the German BGB, article 226, Italian Civil Code, article 833, Spanish Civil Code, article 7.2. In nearly all of them, however, there is the element of intent, i.e. the *animus* of harming others.

The principle of abuse of rights is not so readily apparent in common law systems, but some authors see them employed under such labels as nuisance, duress, good faith, etc. and also in the case of abuse of patent rights.

The new Brazilian Civil Code adopted the doctrine of abuse of rights in its article 187, as follows,

“Also commits an illicit act the holder of a right, which, in exercising it, clearly exceeds the limits imposed by its economical and social purpose, by good faith or by moral.”

As it can be seen the abuse of rights according to the Brazilian Civil Code does not depend from the intention of producing harm and is directly linked to the economical and social purpose of the right. There is, however, a discussion in the Brazilian doctrine if the *animus* of harming is still present in the mentioned article.

The doctrine of abuse of rights could be considered therefore, an interesting alternative in the Brazilian legal system to force a design owner to refrain from harming third parties when exceeding its rights.

There is, however, until now no case law related to the application of the abuse of rights doctrine to industrial designs in Brazil.

6. The Design Protection of Automobile Spare Parts

The design protection of automobile spare parts is an interesting example of the interaction between intellectual property rights and competition right.

In a study performed for the French automobile industry the design was considered to represent 10% of the total cost of producing a car and it is, therefore, clearly understandable that the manufacturers are vividly interested in protecting this investment through design protection. On the other hand the automobile spare parts market, also called aftermarket, has a considerable economical significance, for example, in the European Union totaling a turnover per year of EUR 10 billion.

In the USA the dispute between automobile producers and spare part producers is nearly as old as the automobile industry itself. In the decision *Pick Mfg. Co. v. General Motors Corp.* from 1935 the court decided that the request of the car manufacturer that its distributors should sell only original spare parts, was not an offense to the Clayton Act (Clayton Antitrust Act from 1914), under the consideration that the car manufacturer intended to preserve the consumers expectations.

It is important to observe that in the USA the abuse of rights of a patent has the specific consequence of suspending the effect of the patent rights, as long as the abuse lasts (doctrine of patent misuse).

Regarding spare parts there is a clear definition in the USA that car body parts are not protectable through design. This has been attributed to a public policy rationale concerning the spare parts market and a potential monopoly associated with design protection thereon. Other reason is that when the functionality of the product overrides its ornamentality the design protection is not available. In the decision *Chrysler Motors Corp. v. Auto Body Panels of Ohio* the court decided that the design of car body panels are primarily functional and thus not ornamental.

In the European Union the situation is far more complicated. During the negotiation of the Directive 98/71 on the legal protection of designs, there was a disagreement on the role of design protection in respect of “must match” spare parts for complex products, in other words, spare parts which must, in order to be of use, exactly match in the design of the part they are replacing. A compromise was reached in which the member states maintained their existing laws on design protection for such spare parts (must match), and were allowed to change those provisions only in a way that further opened the spare parts market, by allowing suppliers others than the makers of the original part to offer replacements. Following the compromise some countries like Spain, Italy and UK adopted in their design laws a provision called “repairs clause”. In these cases the design protection of new products, i.e. complete cars, were allowed, but the protection of the visible external spare parts was barred. Meanwhile nine member states opened their markets and sixteen, among others the major automobile producers Germany and France, continued to extend protection to spare parts. Due to this fragmentation the Commission of the European Union proposed a modification of the Directive to definitively bar from design protection those spare parts for the secondary market, i.e. the outside visible spare parts (“crash” parts) such as bonnets, bumpers, doors, lamps, radiator grills, windscreens and wings. The argumentation of the EU Commission was that a uniform internal market without the design protection of automobile spare parts would increase competition, widen choice and reduce prices.

On the other side the European Court of Justice was confronted in the cases *Volvo* and *Renault/Maxicar* (1988) with the question whether high pricing of spare parts by an original producer would be a misuse. The ECJ general answer was negative considering that the original producer has made investments in the design and should have a fair right to regain his costs with a normal profit; otherwise he would not be able to stay long in business. However, the situation could turn to a misuse, if he under the protection of his monopoly claimed excessive prices.

Presently the situation regarding the insertion of a “repairs clause” in the members states is still not clear. In Germany for example, the recent proposal for the

modification of the design law in the beginning of this year did not contemplate the “repairs clause”.

In the discussions in the European Parliament regarding the EU Commission proposal of a mandatory “repairs clause”, serious concerns, especially regarding safety relevant spare parts, have been raised. A decision is expected within this year.

In Brazil there are no restrictions in the Industrial Property Law regarding the protection of spare parts, specifically automobile spare parts. Indeed, the car industry started only recently to protect spare parts through industrial design.

The automobile manufacturing sector is one of the major industry sectors in Brazil. The Brazilian automobile parts industry sold in 2003 US\$ 12,4 billions, representing 2,5 % of the GDP. The aftermarket represented nearly US\$ 2 billions. It must be further observed that differently from Europe and USA, Brazil has an automobile market that is still growing. Besides the already established manufacturers, several car companies, especially Japanese, are still installing new production plants. The car industry represents the major employer in the industrial sector in Brazil. Without any doubt the social and economical environment in Brazil is completely different from Europe and USA and it is understandable that the high investment costs of the manufacturers must be protected.

A lack of protection for automobile spare parts as practiced in the USA and proposed in Europe, especially considering the possibility of cheap imports from Asia, would, apart from safety concerns, pose a major threat to this vital industrial segment in Brazil. The risk of losing a considerable amount of industry jobs with its social consequences is also a further concrete worrying threat.

The question is, how to solve punctual problems of abuse of industrial property rights, specifically industrial designs, considering that the Brazilian law does not foresee the possibility of compulsory license for it.

As already explained, the recently incorporated to the Brazilian Civil Code doctrine of the abuse of rights, is a concrete instrument to balance threats to fair competition.

Considering that the already mentioned article 187 qualifies as an illicit act (tort) exceeding the social and economical purpose of a right, it is clear that this legal instrument may be used in court to correct abuse of economic power or market dominance.

Of course, however, the regular exercise of the exclusive rights guaranteed by a design registration cannot be taken to constitute an abuse.

7. Conclusion

Seven points to keep in mind about the protection of automobile spare parts in Brazil:

- The Brazilian Constitution considers the protection of industrial property rights to be a constitutional guarantee.

- There is a modern Industrial Property Law and a functioning system for the granting of effective design protection within a short period of time.

- Brazil is a market economy with an antitrust legislation and an operating antitrust office to provide freedom of competition.

- The main legal instrument used to avoid economical abuse and market dominance is the compulsory license.

- For industrial design, which is not subjected by law to compulsory license, there is the doctrine of the abuse of rights in the Brazilian Civil Code.

- When applying the abuse of rights to an industrial design registration it must be proved that it exceeds its economical and social purpose or is against good faith or moral.

- Differently from USA and part of Europe, designs can be used to protect automobile spare parts in Brazil.