

1. Legal Protection of Trade Secrets in Brazil

The current legal protection of trade secrets and confidential information in Brazil derives from the TRIPS Agreement, signed in 1994 and in force in the Country since January 1, 1995.

As a response to the need of protection set forth in article 39 as well as to define legal remedies to comply with PART III of the TRIPS Agreement, a new Industrial Property Law was enacted – Federal Law No. 9,279/1996, effective from January 1, 1997, which is currently in force.

The Brazilian Industrial Property Law (henceforth “BIPL”) establishes that disclosing, exploiting or using, “without authorization, confidential knowledge, information or data, which can be used in industry, in trade or in the providing of services, except that which is public knowledge or is obvious to a person skilled in the art, to which access was had by means of a contractual or employment relationship, even after termination of the contract” is a crime of unfair competition as well as a civil violation¹.

The same is true to the acts of disclosing, exploiting or using, without authorization, such undisclosed knowledge or information, if it has been obtained by unlawful means or to which access was had by fraud².

Besides these two express prohibitions of the law³, the BIPL also grants that “[T]he injured party shall be assured the right to receive loss and damages in compensation for the loss caused by acts of infringement of industrial property rights and by acts of unfair competition not provided by this Law, which tend to prejudice one’s reputation or business, or to create confusion between commercial, industrial or service providing establishments, or between products and services offered in the course of trade”. This broad compensation clause is typically applied in connection with the specifications of Article 39 (2) of the TRIPS Agreement as well as Article 10bis of the Paris Convention⁴ in order to encompass other kinds of violation of trade secrets, know-how and confidential information which would amount to unfair competition acts.

The BIPL establishes instances where a third party not in direct contact with the trade secret proprietor may be held liable for violation of trade secret rights. The already cited item XII of article 195 determines that fraudulent or unlawful obtainment of trade secrets is a criminal offense, without requiring that the offender is in direct contact with the trade secret proprietor. Hence, a company that hires an ex-employee of a competitor with full knowledge that the ex-employee is carrying trade secrets to be disclosed and/or used to the benefit of the new employer is also liable – criminally and civilly - for the violation of the former employer’s rights.

Even if the violation of the former employer’s rights would amount merely to a breach of contract, the new employer would be held liable under the “third accomplice” theory which sets that a third party which is not a party to the agreement is liable for the breach thereof whenever she acts to stimulate, facilitate and materially aid the breaching party.

¹ BIPL, article 195, item XI.

² BIPL, article 195, item XII.

³ The criminal penalties – which do not detract from civil damage claims – are imprisonment for 3 (three) months to 1 (one) year, or a fine. Article 195, sole paragraph.

Although trade secrets are protected under unfair competition law, Brazilian legislation does not confer upon the person in control of the trade secret, know-how or confidential information any right of property.

It should be noted that the BIPL is not the only source of protection of trade secrets in Brazil, even though it certainly is the main one. Brazilian Labor Law⁵, long before the enactment of the current BIPL, has established in its article 482, letter “g”, that the violation of trade secrets (in the original text “secrets of the company”) is a justifiable cause for dismissing the employee, implying that it is a basic duty of any employee to keep secret all undisclosed information which is valuable to the employer and can be considered as trade secrets.

The Brazilian Franchise Law⁶ establishes in its article 3, item XIV, letter “a”, that the access to, conditions of use of, as well as the situation of the Franchisee after the end of the Franchise Agreement relating to trade secrets must be set forth in the Franchise Offering Circular as well as in the Franchise Agreement, again implying that this kind of information is valuable, deserves protection and that the access to it by the Franchisee and its employers must be regulated by agreement.

Ultimately, the Brazilian Civil Code⁷, even though not referring expressly to trade secrets or confidential information, prohibits the unjust enrichment (art. 844) and sets forth the integral compensation principle (art. 927 and 944), both of which act as a support in trade secret infringement cases.

2. Protecting trade secrets in Court: proving trade secret violation and requesting judicial secrecy under Brazilian legislation.

Brazilian Civil and Criminal Procedural laws both require that the claimant is able to prove in a lawsuit that he is the lawful holder of the rights which he claims are being violated.

This kind of evidence is typically more complex to establish in connection to trade secrets than in trademark and patent lawsuits, where an ownership document/title conferred by an Industrial Property Office is usually available.

Ideally, the claimant should be able to furnish evidence of his control over the information which is considered trade secret and of the information itself, which is usually based on written documents or visual, tangible media.

Also, the claimant must evidence that he has taken reasonable steps to keep the information in confidentiality and that the access to it by the infringing party was fraudulent, unlawful or that the disclosure/ use thereof resulted from breach of contractual or legal obligations.

The law omits whether the claimant in a trade secret infringement lawsuit must submit *prima facie* evidence whether the information in question is non-obvious to a person skilled in the art, as established by article 195, item XI of the BIPL. In practice, the claimant will detail how the

⁵ Federal Decree-Law No. 5,452 of 1943.

⁶ Franchise Law No. 13,623 of 2008.

⁷ Civil Code No. 10,406 of 2002.

information which is presented as a trade secret is not publicly known nor obvious. However, more thorough evidence is produced further in the proceedings, usually by a court expert.

It is important to notice that this information may be submitted in Court under the protection of procedural secrecy. Article 206 of the BIPL establishes that “in the course of a court action if, in order to defend the interests of any of the parties, information regarded as confidential, whether an industrial or a trade secret, is disclosed, the judge must determine that the case proceed in judicial secrecy, and the use of such information for other purposes shall be prohibited also to the other party”. In legal practice, the judges are as a rule very respectful of the secrecy of trade secrets and know-how and typically determine that the procedural secrecy will extend to all the case files.

The judges will usually grant the judicial secrecy upon request, without requiring that full evidence of the confidential and relevant character of the trade secret be submitted in Court. However, if the defendant succeeds in proving that the information submitted by the claimant is not a trade secret – usually by providing evidence that the information is publicly known – the judge may reverse the judicial secrecy. Also, the decision which grants the judicial secrecy may be appealed.

This procedural secrecy includes restricted access to the case files - only the judge, his clerks and auxiliaries (such as the court expert), the parties and their attorneys-at-law may access the contents of the dockets. Judicial secrecy also demands restricted access to audiences and judgment sessions. Ultimately, only the public parts of decisions are published in the Official Gazette.

Usually, the most difficult aspect of setting a case and launching a trade secret misappropriation lawsuit is proving that the defendant has disclosed or used or will probably disclose or use the trade secret under control of the claimant, as these disclosures and uses are usually discrete and any evidence thereof is kept at the facilities of the defendant or even at his house/ real estate.

Granted that the trade secret proprietor is able to provide evidence that i) he is the rightful controller of the trade secret; ii) that the adverse party has had access to the trade secret; iii) that there is a reasonable chance - usually supported by indicia -- that the defendant has violated, is violating or will violate the proprietor’s trade secret rights, the trade secret proprietor may be granted *ex parte* injunction relief to obtain evidence that the adverse party is in possession of the trade secret or that he is using or has disclosed it to a third party.

This injunction relief usually takes the form of a Writ of Prevention (Portuguese: *Medida Cautelar*) which aims at anticipating the production of evidence and/or at seizing documents/ products/ media, etc. in order to establish whether a violation has occurred, is occurring or is at risk of occurring. The injunction relief may also be requested in the complaint writ of an infringement lawsuit, as a preliminary *ex parte* measure.

Besides these measures, the Judge may request that Government agencies (such as the Internal Revenue Service) and Private companies (such as internet service providers, banks or telephone companies) provide information on the adverse party also in an attempt to establish evidence of violation of trade secret rights.

Any of these measures must be appropriate and reasonable in relation to the need to protect trade secrets. In practice, the Brazilian Judges are more inclined to determine seizures and anticipation of evidence rather than requesting from Private companies or Government agencies any private and confidential information on the defendant.

3. Valuation of damages

The claimant may request compensation for material and moral damages in the lawsuit.

Material damages are divided into actual damages deriving from the violation of trade secret rights as well as loss of profit.

The compensation for actual damages, according to article 208 of the BIPL, “shall be determined according to the benefits that the injured party would have gained had the infringement not occurred”.

The compensation for loss of profits may be calculated by the most favorable and adequate of the following standards set forth by article 210 of the BIPL:

- I. the benefits that the injured party would have gained had the infringement not occurred; or
- II. the benefits that were gained by the infringer of the right; or
- III. the remuneration that the infringer would have paid to the holder of the infringed right for the grant of a license which would have enabled lawful use of the trade secret.

The claimant may choose from one of the three standards or leave the choice to the Judge.

One should bear in mind that if the disclosure or use of the trade secret occurred due to non-gross negligence or misuse of the proprietor, the judge may proportionately reduce the value of the compensation due, in recognizing the claimant’s partial guilt in the violation of his own trade secret rights.

Besides material damages, encompassing actual damages plus loss of profit, moral damages must also be compensated, according to article 5, item X of the Brazilian Constitution, as well as to article 186 of the Brazilian Civil Code.

Any person or legal entity is in theory entitled to compensation for moral damages. The possibility of moral damage of a legal entity was expressly established by the Superior Court of Justice in these terms: “The legal entity may suffer moral damages”⁸.

However, in practice, the judges are typically resistant to considering that the violation of trade secret rights is able to cause relevant damages to the reputation, credit or objective honor of the

legal entity or even of the natural person who is the proprietor of the infringed trade secret. In fact, contrarily to trademark infringement cases or lawsuits concerning the divulgence of false information or copy of trade dress, the prejudice to the trade secret proprietor's credit and reputation in trade secret rights infringement cases is not as evident.

This is specially so when the trade secret is not divulged to the general public or in cases where the infringement did not reach to the knowledge of clients, partners, investors, franchisees, licensees, i.e., it was kept at a discrete level.

We may conclude that under Brazilian law, the moral damage is compensated as a rule, yet the mere fraudulent or unlawful divulgence or use of the trade secret does not amount to moral damages of the trade secret proprietor. Other factors must come into play, such as damage to the claimant's reputation with clients, partners, franchisees, investors, furnishers and/or damage to the claimant's general credit.

4. Protection of Know-How in Confidentiality or Non-Disclosure Agreements

As a rule, confidentiality agreements and clauses are enforceable under Brazilian contract law. However, if the information, which is secret under the terms of the agreement, is or becomes publicly known, the confidentiality agreement or clause will not be applicable.

In the event of breach of a confidentiality or non-disclosure agreement protecting know-how, the victim will have the same remedies available for protecting trade secrets in general, which we have already discussed in item 2, above. In addition, the victim is able to request specific compliance of the confidentiality agreement/ clause, including the application of fines established in the agreement or by the Judge handling the case, without having to go through a typical procedure involving producing evidences. In other words, the judge may grant relief to the infringed party as a mere compliance of the NDA/ Confidentiality agreement/clause without having to first rule whether the information in question is indeed a trade secret. Of course, the defendant may provide evidence that the breach has not occurred or that there was an attenuating circumstance or that the information was made public by the trade secret holder himself.

To enable a request of compliance of NDA/ Confidentiality agreements at court, the parties must have executed a written agreement signed by two witnesses⁹.

5. Misuse of Trade Secret Protection

In the generally called "information society", undisclosed information is deemed as one of the most valuable assets to corporations as well as governments.

Thus, the protection conferred to trade secrets and the judicial remedies granted by law are a crucial element of a Country or Region's capability of providing a safe environment for investors and creative individuals and organizations. The infringement of trade secrets, as well

as the infringement of intellectual property in general, usually causes irrecoverable damage and demand fast and efficient actions from government officials and the judiciary.

On the one hand, legal protection afforded to trade secret holders must be adequate to the nature of this asset, which typically involves the need for fast and effective measures. On the other hand, as pointed out in the previous titles, the measures must be proportionate and avoid excessive damage to the infringing party. Accordingly, a judge must request a minimal *prima facie* evidence that the claimant is the holder of the trade secret and that there is indicia of infringement.

Despite the cautions established by the BIPL as well as Procedural Law, a claimant may misuse the legal protection afforded to him by, among others:

- requesting disproportionate relief measures;
- submitting as trade secret an information that is publicly known or obvious to a trained professional in the relevant field but not to a civil or criminal judge; and
- using trade secret protection to unlawfully restrict competition or to hinder the hiring, by a competitor, of an ex-employee.

Brazilian law does not establish what misuse of trade secret protection is. However, it does establish that the holder of a right will be responsible for damages caused by his misuse thereof –the Brazilian Civil Code, article 187, employs the term “abuse of rights”.

Brazilian Antitrust Law¹⁰ considers as infractions to competition the prejudice in any way of the free competition, to illegally impede or hinder the entrance of new companies in the market, to hinder or impede the legitimate use of intellectual property or technologies and to misuse (abuse) intellectual property rights and rights over technologies. All of these conducts may be undertaken in connection with trade secrets.

The misuse of trade secrets protection may be translated into sham litigation, i.e., the judicial harassment of competitors with the undeclared aim of illegally hindering or impeding their performance on the market.

Ultimately, article 195, item XIII of the BIPL establishes that it is a crime of unfair competition to sell, display or offer for sale a product falsely declaring that it is protected by a pending or granted patent, or by an industrial design registration, or to mention in an advertisement that it is pending, patented or registered, when this is not the case. Even though the item does not mention “trade secrets”, which impedes considering the false claim of having a trade secret as a crime, this legal disposition may be applied analogically in civil lawsuits to consider that the false claim of trade secret is an act of unfair competition punishable by law.

The misuse of trade secret protection can lead to compensation for damages caused to a defendant as well as to fines established by the Administrative Council of Economical Defense (CADE), which is a Federal Agency responsible for enforcing the Antitrust Law in Brazil. If a

judge concludes that a party has misused trade secret protection in bad-faith during the proceedings, he may also establish a fine¹¹.

If the misuse of trade secret protection generates a reasonable risk of unrecoverable damages for the victim, she may request *ex parte* injunction to stop the misuse in question.

6. Personal Reflections and Conclusion

Besides the measures listed in Article 39 (2) of the TRIPS agreement, which are the conditions a person or legal entity must meet in order to have its information considered as a trade secret in Brazil, the trade secret holders should adopt additional cautions, especially in Brazilian territory.

The first measure is to classify the information according to its relevance and maintaining adequate and proportionate secrecy. This means affording high protection to highly relevant information which must be kept undisclosed, by means of setting both contractual as well as technical/ technological barriers.

It is important to keep in mind that the Brazilian laws do not establish a difference between trade secrets which are incorporated to an employee as a natural part of his employment experience – and therefore cannot be realistically “unlearned” - and the trade secrets which are not a necessary element of the work and whose protection does not hinder the capability of an ex-employee which had contact with it to obtain employment in a competitor or to set his own competing business. Moreover, the protection of workers in general is a constitutional value of the Brazilian Republic, which reflects in the employee-protective nature of labor law and labor courts.

Hence, trade secret holders should draw specific NDAs and confidentiality agreement clauses with employees whom have or may have access to trade secrets and confidential information. Non-legal measures such as restricting access to highly valuable trade secrets only to the most qualified employees (such as officers and managers) as well as technical barriers such as encryption and safekeeping documents should also be considered.

One of the difficulties in protecting trade secrets in Court is providing evidence of the trade secret. Thus, whenever possible, the trade secret should be written down in a confidential document. Some Registries of Titles and Deeds provide for recording of confidential documents, a measure which can raise the chances of the documents being accepted in court proceedings.

Finally, trade secret owners should take expedite action when learning of infringement or risk of infringement of trade secrets. Failure to request judicial relief as soon as the knowledge of infringement is received may entail the rejection of *ex parte* relief measures due to a perceived lack of urgency.

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