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## Parallel Importation in Brazil: Key Pitfalls to Avoid

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As international markets grow closer, parallel importation has become a topic of growing importance, sparking debates about the movement of goods across borders. This practice involves the importation of genuine products that feature a third party's trademark, industrial design, or patent but are introduced into a market outside the official distribution channels and without the authorization of the intellectual property (IP) owner, such as premium wines and spirits, branded drinks, well-known chocolate and snack brands, luxury perfumes, and smartphones.

While the so-called gray market diversion results in the loss of billions in revenue annually worldwide, the financial impact is only part of the problem. Potential issues with regulatory compliance, consumer protection, supply chain transparency, product integrity, compliance with service and warranty obligations, and even legal liabilities can meaningfully affect and harm companies' (or brand) reputation and trust.

In Brazil, parallel importation can be challenged, with Brazilian courts consistently siding with IP owners. Nevertheless, a carefully crafted approach is essential to avoid pitfalls that could weaken and even harm the overall strategy in addressing this type of infringement.

## Legal Framework for Protecting IP Rights and Consumer Interests in Brazil

Central to the debate around parallel importation is the exhaustion of rights doctrine, which limits the ability of IP owners to control their products after the first sale. Once the product is lawfully sold by the IP owner or with its consent in the Brazilian territory, the right to restrict its distribution or resale is considered “exhausted.”

Basically, this principle can take two forms: (1) national exhaustion, where rights are exhausted only within the country where the product was first introduced by the IP owner or its authorized distributor; or (2) international exhaustion, where rights are exhausted worldwide once the product is placed on the market, regardless of the location.

The Brazilian Industrial Property Law (Law No. 9.279/1996) establishes a national exhaustion system, granting exclusive rights to trademark holders while also establishing limitations. Article 132(III) states that the rights holder cannot “prevent free circulation of products placed on the domestic market, by itself or third parties with consent.”<sup>1</sup> Similarly, article 43(IV) limits patent and industrial design holders’ ability to restrict the importation of goods already introduced by them or with their consent.<sup>2</sup> This framework indicates that while IP owners cannot block the sale of products legally introduced in Brazil, they retain the authority to combat unauthorized parallel imports that bypass their consent.

In addition to the Brazilian Industrial Property Law, IP owners can rely on the Brazilian Consumer Defense Code (Law No. 8.078/1990), which protects consumers from unauthorized products that fail to meet warranty, safety, and labeling standards, and on local Customs Regulations (Decree No. 6.759/2009), which authorize Receita Federal (Brazilian Federal Revenue Service) to inspect and seize unlawful imports.

Moreover, further enforcement tools comprise regulatory standards like ANVISA (Brazilian Health Regulatory Agency) and INMETRO (Brazilian National Institute of Metrology, Standardization, and Industrial Quality) certifications, which ensure compliance with local health, safety, and quality requirements.

When combined with international trade obligations under GATT and TRIPS, these tools create a strong system for protecting IP rights and consumer interests against the challenges presented by gray market goods.

## Mistakes to Avoid in Combating Parallel Importation in Brazil

When addressing the challenges of battling parallel importation in Brazil, it is equally important to examine how Brazilian courts interpret and enforce the law, as their decisions on this matter tend to be intricate and nuanced. This is especially true in state courts outside the jurisdiction of Rio de Janeiro and São Paulo, though similar complexities can also arise within these states in some cases.

Although the legal environment in Brazil has grown increasingly favorable for IP owners in recent years, it still presents significant risks and pitfalls that require thorough and strategic navigation.

### *Failure to Control Official Distribution Channels*

The lack of proper control of official distribution channels can lead to vulnerabilities that allow unauthorized parallel imports to access restricted markets, undermining IP rights. In this respect, effective distribution control requires addressing two key dimensions: international and domestic distribution.

A common pitfall is not including robust territorial or exclusivity clauses in contracts with distributors globally. Such clauses are essential to define the scope of permitted operations and prevent products from reaching unauthorized markets. By failing to include such contractual provisions, distributors may inadvertently or intentionally contribute to the spread of products into markets where they should not be sold, leading to complications in enforcing IP rights.

Domestically, the establishment of well-defined distribution agreements in Brazil is equally critical. Determining exactly which parties are authorized to import and distribute the products domestically is indispensable for the control and supervision over the commercialization of protected assets.

A comprehensive approach to handling distribution chains requires careful consideration of export rules as well. This is because, according to prevailing Brazilian case law, parallel importation does not constitute IP infringement when the products are purchased from the IP owner's official distributors abroad or from companies authorized by the IP owner to export to the country (as set by the Superior Court of Justice in Special Appeals Nos. 609.047/SP<sup>3</sup> and 1.200.677/CE<sup>4</sup>).

This precedent was further reinforced by the Court of Appeals of São Paulo in *Orange Comércio & Mercado Livre v. Crocs*,<sup>5</sup> where Judge Jorge Tosta concluded that Crocs could not prevent the sale of its original shoes lawfully obtained by Orange Comércio from authorized distributors, either through an online marketplace platform or its own website.

Judge Tosta based his decision on article 132(III) of the Brazilian Industrial Property Law, which sustains the principle of national exhaustion of trademark rights. According to this principle, the trademark owner is unable to prevent the circulation (resale) of the product, including through online platforms, once it has been lawfully introduced into the domestic market. Additionally, Judge Tosta highlighted the absence of a written agreement between the parties containing specific clauses that impose restrictions on the sale of legally acquired goods, which could have supported the requested prohibition.

Therefore, to effectively combat parallel importation, IP owners must implement and regularly update rigorous controls over their global and domestic distribution networks, ensuring clear territorial restrictions, enforceable exclusivity clauses, and penalties for noncompliance. Contracts should be well-structured, free of ambiguities, and fully compliant with Brazilian law to support robust enforcement efforts.

### *Inadequate Market Monitoring and Enforcement*

A lack of strategic planning and proactive market monitoring can substantially undermine efforts to combat unauthorized parallel imports.

The main goal of monitoring both physical and online markets is to ensure that the company remains aware of which of its products are being offered on the Brazilian market by third parties. This enables the IP owner to take timely and appropriate measures to address any potential infringements effectively.

In this context, Special Appeal No. 1.200.677/CE further highlights the importance of prompt action. A key reason why the court did not acknowledge the importer's infringing actions was the extended period (15 years) during which the importer had been marketing the products without any challenge from the IP owner. As a result, the IP owner was unable to request the cessation of parallel importation of its products, having implicitly allowed the imports and sales to occur.<sup>6</sup> This case highlights the need for watchful market monitoring and prompt enforcement to prevent unauthorized activities from becoming entrenched.

In light of the above, to avoid this pitfall, IP owners must actively monitor the Brazilian market, promptly address unauthorized parallel imports as they arise, and maintain thorough documentation of actions taken to safeguard the market against parallel imports.

### *Lack of Extrajudicial Notice*

Sending extrajudicial notices is a crucial step in dealing with unauthorized parallel imports in Brazil, as it establishes a clear record that the infringer has been informed of the illicit nature of its activities. By submitting such warnings

prior to initiating legal proceedings, the IP owner demonstrates its proactive effort to resolve the matter amicably while leaving no room for the infringer to claim ignorance of its unlawful acts.

From a judicial perspective, when the infringer persists in its conduct despite having been informed through a formal letter, it strengthens the IP owner's case, demonstrating willful disregard for the law. This can have a considerable influence on the court's assessment of the infringer's actions, potentially leading to stricter penalties or higher damages. Additionally, these warnings fulfill the principle of good faith in legal disputes, by providing the offender with an opportunity to cease its activities without resorting to litigation.

In *Lider Sweet v. EFX*, the Court of Appeals of São Paulo held: "The allegation of good faith is not convincing, because the defendant was expressly notified to cease importing and distributing the products."<sup>7</sup> In the course of this ruling, the court further emphasized that since the defendant importer was formally notified of the existence of an exclusive distribution contract with another company in Brazil by means of a letter sent to it by the IP owner, it could not be considered a third party in good faith.

Finally, as mentioned above, warning letters can also prevent future infringements since they establish that the IP owner actively monitors the market and enforces its rights.

### *Insufficient Evidence Gathering*

Collecting solid evidence is also an important step in obtaining favorable results in lawsuits connected to unauthorized parallel imports.

According to Brazilian law, specifically section 373 of the Code of Civil Procedure (Law No. 13.105/2015), the burden of proof falls on the party bringing the claims. This means that the IP owner must provide sufficient evidence to demonstrate the illegal nature of the imports and the infringement of its IP rights, in order to persuade the court of the infringement and secure the desired legal remedies.

One of the most effective methods of gathering evidence in these cases is by purchasing the infringing products in the Brazilian market. This process not only confirms the unauthorized distribution of the goods but also allows the IP owner to collect invoices containing the details of the company engaged in the infringing activities. These invoices often provide critical information, such as the seller's registration before the Receita Federal and boards of trade, and transaction history, which can be used to establish a direct link between the infringing party and the unauthorized importation.

In the case of online infringements, such as items sold on websites, social media, and online marketplaces, the IP owner should prepare a notarial statement attributing public faith to the recorded content.

By securing such evidence, the IP owner not only fulfills its procedural obligations but also significantly improves the chances of obtaining a favorable judgment. Thus, gathering thorough and trustworthy evidence is an indispensable element of any successful strategy against unauthorized parallel importation.

### *Poor Coordination with Customs Authorities*

Another element to consider when acting against unauthorized parallel imports is sending official communications to the competent Brazilian customs authorities in ports and airports.

For example, contacting COANA (General Coordination of Customs Administration) is a valid alternative and supplementary method to prevent the introduction of unauthorized products into Brazil. Aside from sending formal letters, it is also advisable to schedule direct meetings with the authorities to personally explain the case and file formal complaints.

Likewise, there are also other means of notifying the competent authorities, such as by filing administrative complaints with ANVISA and MAPA (Ministry of Agriculture, Livestock, and Food Supply) and informing the Foreign Trade Secretariat (Secex) of the Ministry of Development, Industry, Trade, and Services (MDIC) about the importer's lack of license to introduce the products into the Brazilian market.

Cooperating with the national customs authorities and keeping them informed of possible offenses that may occur can help IP owners prevent unauthorized entry of their products.

### Key Takeaways

- **Control official distribution channels.** To effectively combat parallel importation, IP owners must implement and regularly update strict controls over both global and domestic distribution networks. This includes clear territorial restrictions, enforceable exclusivity clauses, and penalties for noncompliance. Contracts should be precise, unambiguous, and aligned with Brazilian law to ensure enforceability.
- **Monitor the market and promptly enforce rights.** It is essential to maintain detailed records of actions taken to prevent any impression that the illicit imports are implicitly allowed, ensuring a strong defense against claims of acquiescence.
- **Provide extrajudicial notices.** Sending extrajudicial notices before initiating legal action demonstrates a proactive approach to resolving disputes amicably. It also prevents the infringer from claiming ignorance of its unlawful actions and ensures it cannot be considered a good faith third party.
- **Gather sufficient evidence.** Securing evidence, by purchasing the infringing products or preparing a notarial statement, not only fulfills procedural requirements but also strengthens the case by clearly showing the illegal nature of the imports. This increases the likelihood of a favorable judgment, helping to convince the court of the infringement and secure the desired legal remedies.
- **Work closely with customs authorities.** To combat unauthorized parallel imports, IP owners should communicate directly with Brazilian customs authorities like COANA, ANVISA, and MAPA. This includes filing administrative complaints and scheduling meetings with customs officials at key ports and airports.

### Implementing a Strategic Approach to Combat Parallel Importation

Combating parallel importation in Brazil requires a strategic approach that avoids common pitfalls. The main challenges faced by IP owners comprise weak distribution controls, insufficient market monitoring, and inadequate collection of evidence to substantiate claims of infringement.

To address these risks, it is essential to implement preventive measures that strengthen the protection of such rights. Continuous market monitoring, training commercial partners to avoid unauthorized practices, and the establishment of robust internal protocols are crucial steps to minimize the impact of parallel importation on brand value and market integrity.

In addition to prevention, proactive enforcement is key to combating unauthorized parallel importation. Sending cease and desist letters, collaborating closely with customs authorities, and ensuring thorough documentation of violations are effective tools to safeguard IP rights. Such actions not only protect brand reputation in an increasingly interconnected market but also create a solid foundation for enforcing rights in the future.

Ultimately, coordinated and proactive enforcement, through contractual, judicial, and administrative means, is crucial to safeguarding intellectual property rights in Brazil. Without a robust strategy in place, the risk of unauthorized use and trademark dilution remains a constant threat to IP owners.

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## Endnotes

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