Essential Patents and Recent Decisions by Brazilian Courts

26.12.2024 4 min read

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Recently, there has been a surge of patent disputes involving technological standards in Brazil's courts, drawing the attention of both companies that hold patents for such standards, and companies that need to implement the standards to survive in the market.

A technological standard is simply a technology that has been adopted by a specific industry or market to enable interoperability between products of different manufacturers. Examples include 4G and 5G in mobile telephony, and USB and HDMI for connectivity. In addition to benefiting consumers, this standardization facilitates competition and the development of new technologies.

However, these standards often incorporate patented technologies, known as SEPs (Standard Essential Patents). SEPs are considered essential because the standardized technology will not function without them. It follows that if SEP holders do not grant licenses to use the patented technology, market closure can result, harming competition and consumers.

To counter these undesirable effects, many argue that the patent rights of SEP holders should be limited, so that they cannot take advantage of the essential nature of their invention to charge exorbitant amounts in licensing agreements with businesses that apply the standards – those that sell 4G, 5G, USB or HDMI-compatible devices, for example. A consensus has formed around the "FRAND" solution: SEP holders should commit to license their technology on Fair, Reasonable And Non-Discriminatory terms. After all, without fair and reasonable terms for all licensees, businesses that implement a given technological standard could easily be shut out of a significant market.

In this complex scenario, the Brazilian courts, and particularly the courts of Rio de Janeiro, where Brazil's PTO is located, have been called on to take a position in actions for infringement of essential patents, where the rights of the patent holders face off against the prerogatives standards composed of thousands of SEPs.

Preliminary injunctions have proliferated, prohibiting implementers from using the patented technologies, without taking into account the unique characteristics of SEPs compared to traditional patents. As a result, SEP holders continue to seek injunctions from the Rio de Janeiro courts that have the potential to harm businesses in Brazil, solely as a means of exercising pressure to obtain more advantageous global licensing agreements.

Although most court decisions overlook the international context and the competition aspects of these disputes (and, in particular, the importance of technological standards for the market and for consumers), some Rio de Janeiro judges, at both first and second instance, have shown a growing awareness of these issues, especially in connection with the risks to competition when the rights of SEP holders are treated the same way as the rights of holders of traditional patents.

Recognizing the need to differentiate between SEPs and traditional patents, one judge revoked two preliminary injunctions involving SEPS because they represented a "possible abuse of patent rights".[1]

A recent decision by the 5th Business Court[2] took a similar line in recognizing the need for the courts to adopt a uniform treatment of SEPs. In the judge's view, a balance must

be achieved between the parties' interests. For example, when a holder of an SEP files action, it must show that it offered to grant a license on FRAND terms. The 7th Civil Chamber of the Rio de Janeiro Appeal Court also took the obligation to offer a FRAND license into account when deciding an interlocutory appeal[3] dealing with an injunction based on an alleged infraction of an SEP. Despite finding that the requirements for a preliminary injunction had been met, the 7th Chamber decided that the injunction should be replaced by a bond given by the implementer, since at bottom the dispute was over money, and SEP holders are undoubtedly entitled to royalties for the use of their technology.

With the uncertainty generated by injunctions that represent potentially serious risks to businesses that use standard technologies, implementers of those technologies should keep a close on the SEP market. The growth of the Internet of Things and the need for standardized technologies in telecommunications suggest that this type of litigation may have an impact on many different industries and markets, from manufacturers of mobile phone to cars and refrigerators. Understanding the issues is essential for any industry that uses telecommunications resources (and even service providers such as streaming platforms), in order to develop legal strategies to prevent injunctions from causing serious disruption to business in Brazil.

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NOTES

[1] Patent infringement actions 0938160-61.2023.8.19.0001 and 0947617-20.2023.8.19.0001.

[2] Procedural order in patent infringement action 0809129-51.2024.8.19.0001, assigned to the 5th Business Court in the Rio de Janeiro capital district.

[3] Rio de Janeiro Court of Appeal - TJRJ. Interlocutory Appeal AI 0042570-64.2021.8.19.0000. 7th Civil Chamber. Judge Luciano Saboia Rinaldi de Carvalho reporting, judged November 10, 2021. Full text of the decision under seal.

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