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International Licensing—South America

Ricardo Pinho

Are Foreign Arbitration Decisions Enforceable in Brazil?

In a previous column, we focused on how tricky it could be to use "standard licensing agreements" for IP licensing contracts in the majority of the Latin American countries, mainly in Brazil.

In that column we stressed that, although the parties may elect the governing law for the covenant and the competent court to decide disputes arising there from, a decision from the Brazilian Superior Court of Justice ruled that Brazilian courts have concurrent jurisdiction to decide disputes arising from "international agreements," mainly those whose objectives (as, in this case, a distribution agreement) will take effect only in the country.

Because of this understanding, some degree of uncertainty emerged in the actual ability of the parties to elect a foreign court as competent to decide disputes arising from the agreements where their objectives will be performed in Brazil, by a Brazilian party.

However, even if election of a foreign court were not challengeable and if it were peacefully accepted that such disputes could be decided by foreign courts, enforceability of the rulings of foreign courts would still be uncertain.

In our previous column, we mentioned, *en passant*, that arbitration could be elected by the parties in an international agreement, to solve the disputes arising from that agreement. As a matter of fact, during the last few years, arbitration has revealed itself as a strong and powerful means to settle disputes between contractors, when one of the contracting parties is Brazilian.

Since 1996, Brazil has had a modern law governing arbitration in the country [Law no. 9,307 of September 23, 1996]. On June 1996, the Brazilian Congress approved the text of the Inter-American Convention on International Commercial Arbitration and, on September 5, 1996, (merely a few days before Congress passed the Brazilian Arbitration Act) the President enacted Decree no. 1,902, adopting the text of the Inter-American Convention on International Commercial Arbitration as Brazilian legislation.

However, it was not before 2001 that the Brazilian Arbitration Act became "effective," when the Brazilian Supreme Court issued the first judgment reaffirming the constitutionality of Law no. 9,307/96 and its provisions [Ag. Reg. SE

No. 5,206-7 of December 12, 2001—Reporting Judge Hon. President Min. Marco Aurélio]. Only after the Supreme Court's reaffirmation of the constitutionality of the arbitration law was it that many Brazilian companies felt encouraged to elect arbitration as a means to settle the disputes arising from their business contracts. It also was after this decision that many arbitration courts operated by different entities were established in the country.

The 2001 decision was rendered in a dispute between a Brazilian company and a Spanish company, in which the Brazilian company challenged the request made by the Spanish company to the Brazilian Supreme Court to homologate an arbitrational decision rendered by a Spanish Arbitration Court. At that time, the Brazilian Supreme Court was still responsible for the homologation ["Homologation," in this context, means the procedure by means of which a foreign sentence becomes enforceable in the country, after being ratified by the Supreme Court (currently, by the Superior Court of Justice).] of foreign decisions, including court and arbitration rulings. After Amendment to the Constitution No. 45 came into effect on December 8, 2004, this responsibility was given to the Brazilian Superior Court of Justice. On May 4, 2005, the Supreme Court of Justice issued its Resolution No. 9, which regulates the prosecution of requests for homologation of foreign decisions. The legislative background was then completed, considering that, on July 22, 2002, the New York Convention of June 10, 1958, was adopted by Brazil.

Since 2004, the Brazilian Supreme Court of Justice has been ratifying foreign arbitrational decisions to be enforced in the country and, curiously, decisions of this nature became more effective in the country than decisions rendered by foreign courts of law.

Foreign court decisions also are enforceable in Brazil, provided they pass through the same "homologation process" before the Brazilian Superior Court that the arbitrational decisions go through. The outcomes, however, are normally very different. While arbitrational decisions are usually ratified by the Superior Court of Justice, often court decisions are not. Why? The explanation is quite simple.

In order to obtain the authorization of the Superior Court of Justice to enforce a foreign court decision in Brazil, the foreign party must prove that the Brazilian party was "adequately" served with summons in the court procedure. In this context, "adequately" means "according to Brazilian procedural rules," which prescribe that a Brazilian resident can only be served with summons for a foreign court procedure by means of rogatory letters. A "rogatory letter" is a request from a foreign court authority to the Brazilian judiciary authority to serve a Brazilian resident with summons. The request passes the Brazilian Superior Court of Justice and, when approved, receives the "exequatur" and is remitted to a federal court [according to Resolution No. 9 of the Brazilian Superior Court of Justice] with jurisdiction over the place where the Brazilian party is domiciled, which will perform the service of summons.

This process is time consuming and costly and, most of the time, foreign parties avoid it and use the means to serve the Brazilian party with summons as provided for in the law of the court proceedings—by registered mail, for example. What usually happens is that the Brazilian party receives the summons (by mail), but does not appear before the foreign court and is declared "in default." Under these circumstances, the Brazilian Superior Court of Justice cannot ratify the decision to be enforced in Brazil, because the Brazilian party was not "adequately" served with summons. [This is why it was mentioned in the beginning of this article that enforceability of the rulings of foreign courts in Brazil would be uncertain, even when a foreign court is considered exclusively competent.]

However, arbitration proceedings are more simple and expeditious, and the serving of the summons on a Brazilian party by mail, for example, is acceptable. [In SEC 874/2006, the Brazilian Superior Court of Justice decided that Article 39 of the Brazilian Arbitration Law exempts a foreign party to serve a Brazilian resident party by means of a rogatory letter.] Therefore, if a Brazilian party is served with summons for an arbitrational procedure by mail and does not show up, and is therefore considered "in default," these circumstances will not hinder the Brazilian Superior Court of Justice's ability to ratify the arbitrational decision and to authorize its enforcement in the country. For this purpose, it is not even necessary for the arbitrational decision to have been submitted to a court in the country of the proceedings. In fact, if the arbitrational decision was submitted to a court in the country where it was issued, then the process of serving the Brazilian party adequately must be observed, because, at least in one occasion, the Brazilian Superior Court of Justice denied ratification of the arbitrational decision because of lack of adequate service of summons in the subsequent court procedure. [(SEC No. 833/2006, Reporting Judge, Hon. Min. Luiz Fux).] The arbitrational decision itself is sufficient to be submitted and eventually ratified by the Brazilian Superior Court of Justice.

The sole requirements in order for a foreign arbitrational decision

to be ratified by the Brazilian Superior Court of Justice are that:

1. The decision was rendered by a competent authority (the arbitration court elected by the parties);
2. The parties were adequately served with summons or legally declared "in default;"
3. The decision is not vulnerable to appeal (the Brazilian Arbitration Act establishes that an arbitration decision cannot be challenged in court with regards its merits, but only in relation to its formal aspects); and
4. The decision is legalized by a Brazilian Consul and submitted together with a sworn translation by a Brazilian official or sworn translator.

[Article 5 of No. 9 of the Brazilian Superior Court of Justice]

If all the above requirements are found in a foreign arbitrational decision, it likely will be ratified by the Brazilian Superior Court of Justice, unless it is against the country's sovereignty or public order. [Article 6 of No. 9 of the Brazilian Superior Court of Justice.]

As mentioned above, according to the Brazilian Arbitration Act, an arbitration decision cannot be appealed to a court of justice (in order to be reviewed on its merits) and can only be challenged in regard to its formal aspects. The Brazilian Superior Court of Justice is strictly applying this rule and, in more than one case, homologated the foreign arbitrational decision, based on the grounds that the merit of the decision could not be reviewed by that court. [SEC 856/2005, SEC 866/2006, SEC 760/2006, SEC 507/2006 and SEC 611/2006.]

The consistency of the recent decisions of the Brazilian Superior Court of Justice in relation to arbitrational decisions rendered by foreign arbitrational courts encourages us to affirm that arbitration is a valuable means to settle disputes arising from businesses contracts and, in particular, from IP licensing agreements.

In this context, the parties may elect an arbitration court, either in Brazil or abroad, in which they have confidence, and also the law which will govern, not only the arbitration proceedings, but also the decision of the merits of the case.

In any event, the parties may take into consideration some relevant aspects of the Brazilian Arbitration Act—mainly the provision relating to the "arbitration clause" or the "undertaking to arbitration" that will bind the parties to arbitration—and some provisions of the Brazilian Civil Code that will be relevant to the construction and interpretation of the agreement, including the provision that relates to the arbitration itself.

Provided that these details are not overlooked, an arbitration decision will be enforceable in Brazil.

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