



Study Question

Submission date: May 5, 2017

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Quantification of monetary relief

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I. Current law and practice

Please answer all questions in Part I on the basis of your Group's current law.

1 What rules and methods are applied when quantifying actual loss?

In particular, please describe:

- a) the method used to determine the diversion of sales, i.e the part of the infringing sales that the rightholder would have made but for infringement;**
- b) what level of profit margin is taken into account.**

In Mexico there is no formal "Case Law" as we are a country under a Roman Tradition Legal System, thus, the primary and most important legal source is what is formally enacted by Congress and Administrative Regulations issued by the Executive Branch through the different government agencies.

Having said the above, there is a specific system concerning the different criteria adopted by courts and judges, collectively called "*jurisprudencias*" (jurisprudence) which according to the Organic Law of the Federal Judicial Power (LOPJF) can only be created by higher Federal Courts (Supreme Court and/or the Federal Circuit Courts) when the criteria adopted originates in the resolution of at least five (5) different cases involving similar rights or matters, and such criteria can be invoked in subsequent matters that fall into the scope of that particular criteria, as lesser courts are obliged to follow "*jurisprudencia*", but then again, this does not substitute the formal enacted laws nor there is so much emphasis in case law, which contrasts to Common Law systems.

Litigation involving recovery of damages or losses derived from an IP infringement in Mexico is a relative unexplored field, so much that only a handful of matters get to higher courts to be judged and thus the *jurisprudencias* concerning IP damage cases is virtually non-existent, more so if we are looking for judicial guidelines to determine how to quantify the amounts equivalent to the liability of an infringing party.

The reasons behind this situation are due to the fact that in order to pursue a Civil Claim for damages and lost profits the IP owner must first file an administrative infringement claim that will produce an infringement procedure where no damages or losses are examined.

Once the administrative infringement judgment is final and non-contestable the IP owner is entitled to file a completely new and separate procedure before a Civil Court where only damages and lost profits are going to be tried. The latter is due to provisions set forth in last paragraph of article 6bis of the Commerce Code, which has been confirmed and reinforced by multiple *jurisprudencias* issued by the Supreme Court.

In a typical IP infringement matter, it may take between seven (7) and ten (10) years to secure a definitive infringement resolution (of course depending on the complexity of the specific case-matter), and once it is issued the IP owner could have suitable grounds for filing an action to recover damages and losses; consequently not many companies or individuals have the will nor the budget to be involved in such lengthy and costly litigation procedures, which result as being one of the main reasons causing the absence of cases being tried before higher federal courts concerning this particular subject.

Considering the above, the main law governing IP affairs in Mexican Legal system is the Industrial Property Law (MIPL), but there are other legal bodies that are also applicable concerning case-matters involving the relief (indemnification) of damages and losses derived from an infringement, same provisions that include the Commerce Code and the Federal Civil Code and will be addressed later.

Taking into account the above, IPL does include specific provisions that help to roughly determine the amounts involved in case of a damages case, as stated in article 221 Bis of such Law, which states that compensation for material damages or indemnification for damages and harm due to violation of the rights shall in no case be less than 40 per cent of the public sale price of each product or the price of the rendering of services.

In addition to the above and as per articles 2108, 2109 and 2110 of the Federal Civil Code, the concept of "damages" is strictly defined as *"the reduction or decrease in the patrimony or assets of any individual or corporation that is direct result of the actions and/or omissions of another party"*, and the concept "losses" is also strictly defined as the *"inability to receive a lawful earning or profit, that an individual or company was both entitled and reasonably expecting to receive or obtain, as a consequence of the actions or omissions of another party"*.

In consequence it is important to point out that in the Mexican legal system there are no provisions concerning consequential, nor collateral nor punitive damages, thus, the amounts of damages litigations in Mexico are in most cases considerably lower than in the U.S. and/or other jurisdictions, due to the restriction established in the legal definitions of *damages* and *losses* and also because the plaintiff must fully credit not only the basis of its claim (*i.e.* an infringement of an IP right) but also the direct relation (cause-effect) between the amount claimed and the action/omission of the defendant, leaving little discretion to the judge to interpret the particular situation and award an amount that is much higher than the actual damage and/or loss that was duly credited by apportioned evidences.

Considering the above, there are no specific rules or methods foreseen in Mexican law -other than the 40% rule discussed above.

2

What rules and methods are applied when quantifying a reasonable royalty?

In particular, please describe:

- a) the royalty base;**
- b) how relevant comparables among licence agreements are defined;**
- c) how a reasonable royalty is quantified in the absence of relevant comparables;**
- d) the nature of the royalty, e.g. lump-sum, percentage of revenues or profit, a mix?**

As mentioned above, Mexican law is very restrictive concerning the indemnification of damages and losses and because the legal definitions of "damages" and "losses" do not include a specific provision for "royalties", there are no methods nor rules to quantify them.

3

What rules and methods are applied when quantifying the infringer's profits, as part of quantifying damages?

In particular, please describe:

- a) the method to determine the profits resulting from the infringement, i.e. resulting from the use of the IP right;**
- b) what level of profit margin of the infringer should be taken into consideration.**

As discussed in the response to Q. No. 1, the law grants the right to the IP owner to pursue at least the equivalent of 40% of the public sales price of each of the product(s) and/or services that were a result of the infringement; in this regard and as previously stated, once the IP owner obtains a firm and definitive resolution declaring an infringement to the IP right involved, such resolution is the legal basis of the Civil Claim in which the plaintiff (IP owner) may request, at least, 40% of the sales price of each product or rendered service that materialized the declared infringement; in consequence, the quantification method is based in the final sales price of the infringing products/services and does not take into account the profit margin or other considerations in order to quantify this aspect.

4.a What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty in relation to conveyed goods.

As mentioned above, Mexican law is very restrictive concerning the indemnification of damages and losses and because the legal definitions of "losses" do not include a specific provision for "royalties", there are no methods nor rules to quantify royalties; notwithstanding the above, if the rightholder is able to credit that as part of "losses" (within the legal definition foreseen in article 2108 of the Federal Civil Code) there was an amount corresponding to a royalty that was lost due to the infringement that was declared, it can be added to the "losses". In the end more than a question of methods used to calculate the amount is a matter of evidences to support the claim.

4.b What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the infringing product forms part of a larger assembly.

Same as 4.a.

4.c What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty where the IP rights found infringed are routinely licensed together with other IP rights as a portfolio?

Same as 4.a.

4.d What rules and methods are applied, both when quantifying actual loss and quantifying a reasonable royalty when the damage suffered by the rightholder is related to competing goods which do not implement the infringed IP rights?

Same as 4.a.

5 Are any of the rules and methods addressed in your answers to 1) to 4) above different when considering the damage suffered by the rightholder or by its licensee?

As a general principle, there are no differences, as the infringement is suffered not by the licensee but by the owner of the infringed IP right, this is again a matter of evidence to support alleged damages or losses irrespective if the only entity operating in the territory where the infringement took place is a licensee or is the actual rightholder.

6.a What kinds and types of evidence are accepted for proving the quantum of actual loss.

Mexican law allows for all kinds of evidence as long as they do not violate general evidentiary rules; thus, expert witness, forensic evidence and documents showing the extent of the lost profits (losses) and actual damages are accepted. Please note that as previously explained, there are no specific provisions regarding royalties.

6.b What kinds and types of evidence are accepted for proving the quantum of reasonable royalties.

Same as 6.a.

6 For example, is expert accounting evidence on past licensing practices accepted?

Same as 6.a.

7 What mechanisms (e.g. discovery) are available to the rightholder to assist with proving the quantum of actual loss or reasonable royalties?

While Mexican law does not include provisions or institutions similar to the “discovery” that is found in other jurisdictions because the main responsibility of the Plaintiff is to include and produce the evidence in which the claim is based (i.e. Plaintiff has the legal obligation to actually produce all evidence before court), article 379 of the Federal Code of Civil Procedures does allow to request a judge to issue an order requiring the infringer and Defendant to keep and/or produce the documents and other pieces of evidence needed to credit certain facts that cannot be proved or demonstrated otherwise; this is called “preparation means”.

While said provision is part of a Federal Code, several local (State) procedural codes have similar or even more detailed provisions concerning the cases in which a plaintiff may request the court to issue an order to oblige the Defendant to keep and produce evidences before the court, before a formal claim has been filed; please note this is important because the general rule establishes the domicile of the Defendant as the main factor determining the territorial jurisdiction of the courts, thus, the specific provision concerning the extent of the “preparation means” varies greatly from state to state (there are 32 states in Mexico) but they all share the minimum established by the above-discussed provision of article 379 of the Federal Code of Civil Procedures.

8 How, if at all, does the quantification of damages for indirect/contributory infringement differ from the quantification of damages for direct infringement?

1. As discussed in previous questions, there are no provisions concerning consequential, nor collateral nor punitive damages in the Mexican legal system, thus, the amount of damages litigation in Mexico is in most cases considerably lower than in the U.S. and/or other jurisdictions.

9 Are forward-looking damages (e.g. damage in relation to an irreversible loss of market share) available

c) or not at all?

Please explain your answer

As discussed in previous questions, there are no provisions concerning consequential, nor collateral nor punitive damages in the Mexican legal system, thus, the amounts of damages litigation in Mexico is in most cases considerably lower than in the U.S. and/or other jurisdictions, so the answer is NOT AT ALL.

10 Is the bad faith of the infringer taken into account in the assessment of the damage?

No

Please Explain

No, this is not strictly relevant for the assessment of the damages as this specific issue should have been considered previously within the

administrative procedure declaring the infringement, same that as explained before is the basis of the damages claim.

11 How do courts take into account the damage suffered between the date of the infringing acts and the date of the award of damages?

Again, this is a matter of the Plaintiff arguing and producing evidence to demonstrate the actual amount has to include an interest rate or "updating" mechanism to accurately calculate the present (up-to-date) value of damage and/or losses, as it is not expressly foreseen in the law.

II. Policy considerations and proposals for improvements of your Group's current law

12 Are there aspects of these laws that could be improved?

Civil claims for damages, derived from an alleged IP rights infringement, different from copyrights, can be brought only if a final administrative decision condemning for the infringement is secured. The latter represents lengthy and costly litigation procedures. Applicable law could be improved for IP holders or licensees to seek damages without the need of securing a previous final decision condemning the IP infringement, or by having the opportunity to request the administrative authority the granting of damages within administrative proceedings.

The above could be achieved by: (i) granting specific power to administrative authorities to declare the IP infringement and at the same time condemn for the payment of damages (if applicable); or (ii) having the opportunity to file a direct civil action to claim damages related to IP infringements, where civil courts would need to decide whether the IP right is actually enforceable and, then, condemn for damages if it is evidenced and proved that there is an infringement. In the second option, having specialized judges with IP knowledge is desirable.

Through any of the above options, IP holders or licensees (with authority to enforce IP rights) may recover damages and lost profits without the need of filing a separate procedure before a different authority where only damages and lost profits are going to be claimed.

3.a If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court's assessment of the hypothetical negotiation be under an assumption that all the IP rights in suit are valid and infringed?

Yes

Please Explain

As mentioned in div 12 above, in Mexico there are no specific rules or methods for quantifying a reasonable royalty considering that no legal precedents about how to calculate or determine reasonable royalties have been published. IP law provisions state that damages could be of no less than the 40% of the public sales price of the infringing goods. Thus, normally in Mexico damages have to be calculated based on the direct and actual damages and lost profits incurred by the IP holder or its licensee and have to derive from the illegal conduct of the infringer.

Notwithstanding the foregoing, if courts were to determine a reasonable royalty based on a hypothetical negotiation, we are of the idea that its assessment should be issued once the authority has confirmed that all the IP rights are valid and infringed. The latter considering that a reasonable royalty damages decision, like any other damages decision, must not be based on speculation or assumptions. It is necessary to confirm that the involved IP right is valid and infringed in order to provide legal certainty.

3.b If the Court determines a reasonable royalty by reference to a hypothetical negotiation, should the Court first be required to find that all the IP rights in suit are valid and infringed?

Yes

Please Explain

Same as 13.a.

14 If the Court does not determine a reasonable royalty by reference to a hypothetical negotiation, what factors and what evidence should be relevant in that determination?

Although there are no specific methods or rules in Mexico for determining a reasonable royalty, it is our consideration that such determination should be based on the supply and demand conditions in the relevant market and also on the value of the IP right itself. Additional factors for such determination used in specific cases in other countries, where reasonable royalties are commonly determined, could be used as a reference. Although such cases have no relation and would not be binding in Mexico, they could be used as a guide when determining a reasonable royalty as a result of lost profits

As previously mentioned, legal definitions for "lost profit" provided by applicable law provisions in Mexico do not include specific references for "royalties". Therefore, there are no methods or rules; nonetheless, if the IP holder is able to evidence that, as part of "lost profits", there was an amount corresponding to a royalty that was lost due to the infringement, such amount could be added to "lost profits".

In virtue of the above, a market and economic analysis/investigation, including (i) the assessment of competition's degree and potential substitutes; (ii) the determination of demand of the product at issue; (iii) the analysis of the manufacturing, marketing and distribution capabilities and costs of the participants, should be rendered as evidence in order to determine a reasonable royalty. Also, evidence showing lost profits should be rendered.

15 Should the quantification of damages depend on whether injunctive relief is granted, e.g. should forward-looking damages for a loss of market share be available if an injunction is also being granted or only if an injunction is not granted?

Mexican legal framework does not regulate "injunction" or "injunctive relief" figures as regulated in other jurisdictions; however, it is possible to request the enforcement of precautionary measures (e.g. seizure of goods, restriction orders for commercialization).

Notwithstanding the above, in our view, the quantification of damages should not depend on the granting or not of precautionary measures. The latter considering that the purpose of such measures in Mexico is to prevent the infringement conduct to be carried out or to continue until the matter has been resolved.

The important thing is to evidence and prove direct and actual damages and lost profits incurred by the IP holder or its licensee derived from the illegal conduct of the infringer, in order for the court to quantify such damages based on the applicable law provisions, which in Mexico state that damages could be of no less the 40% of the public sales price of the infringing goods.

There is no clear definition as to which is the interpretation of "public sales price". Whether it is the price given to final consumers or the price given to the intermediaries (depending on who is the targeted Defendant – the manufacturer, the distributor, the retail store, etc.). However, the general rule **is the one already mentioned**. With this rule an estimate could be calculated and normally is the starting point for the quantification of damages.

III. Proposals for harmonisation

16 Is harmonisation of the quantification of damages desirable?
*If yes, please respond to the following questions without regard to your Group's current law.
 Even if no, please address the following questions to the extent your Group considers your Group's current law could be improved.*

Yes

Please Explain

Harmonisation of quantification of damages is desirable in all countries and jurisdictions to provide IP holders or their licensees with the same mechanisms to obtain adequate compensation. Otherwise it makes it practically difficult to enforce IP rights across the world and may become uneconomic.

Notwithstanding the foregoing, it is necessary to attend to the specific industries and market practices in order to try to harmonise the methods of quantifying damages.

17 Please propose the principles your Group considers should be applied when quantifying actual loss

When quantifying actual loss, the following principles should be applied:

- Negative economic consequences which the injured party (IP holder or its licensee) has suffered, and any unfair profits made by the infringer;
- The commercial relationship between the IP holder and the infringer, such as whether they are competitors in the same territory in the same line of business;
- The established profitability of the product made under the patent or protected by any other IP right; its commercial success; and its current popularity;
- The amount that a licensor (such as the IP holder) and a licensee would have agreed if both had been reasonably and voluntarily trying to reach an agreement; that is, the amount that a prudent licensee – who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention or IP right – would have been willing to pay as a royalty and yet be able to make a reasonable profit, and which amount would have been acceptable by a bona fide IP holder who was willing to grant a license.

18 Please propose the principles your Group considers should be applied when quantifying reasonable royalties

When quantifying reasonable royalties, the following principles should be applied:

- The royalties received by the IP holder for the licensing of the IP right in suit, proving or tending to prove an established royalty;
- The rates paid by a licensee for the use of other IP right comparable to the IP right in suit;
- The nature and scope of the license, as exclusive or non-exclusive, or as restricted or non-restricted in terms of territory or with respect to whom the manufactured product may be sold;
- The utility and advantages of the IP right over third parties goods;
- The incremental benefits generated by the infringement relative to the benefits that would be available if the infringer had used the non-infringing next best product.
- The amount that a *bona fide* licensor (such as the IP holder) and a licensee would have agreed if both had been reasonably and voluntarily trying to reach a similar agreement; that is, the amount that a prudent licensee – who desired, as a business proposition, to obtain a license to manufacture and sell a particular article embodying the patented invention or IP right – would have been willing to pay as a royalty and yet be able to make a reasonable profit, and which amount would have been acceptable by a *bona fide* IP holder who was willing to grant a license.
- The costs the infringer would have incurred if it had sought to develop and implement a new non-infringing alternative product.

8.a Explaining in particular the relevance, if any, of a hypothetical negotiation and whether the hypothetical negotiation should be under the assumption that the IP rights being negotiated were or were not found valid and infringed;

Same as 18 above.

8.b Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing the IP rights in suit

Same as 18.

8.c Explaining in particular the relevance, if any, of prior licensing practices or prior going rates for licensing other IP rights of third parties that may or may not be similar to the IP rights in suit

Same as 18.

9.a Please propose, in relation to actual loss and reasonable royalties how conveyed goods should be dealt with

With the respect to conveyed goods or infringing goods that form part of a larger assembly, from our stand point, it will be necessary to determine if the functionality or response of the assembly depends on the infringing goods, or if the latter are related to secondary functions or merely intended to ornament. It is our consideration that damages should be quantified based on the whole profit that is obtained by the merchandising of the product incorporating such goods when they are relevant for the functionality or response of the assembly.

When the infringing goods are not relevant for the functionality or response of the assembly, the quantification could be based on the public sales price of the specific infringing product.

Now, with respect to competing goods not making use of an specific patent, such competing goods should not be used as a reference for quantifying losses (based on their public sales price) and reasonable royalties, considering that there are specific elements (such as the well-known and reputation of the IP holder, its position in the market with respect to its competitors, and the quality and advances of their goods) that provides an added value, that apply for each case.

9.b Please propose, in relation to actual loss and reasonable royalties how competing goods of the rightholder, not making use of the patent, should be dealt with

Same as 19.

9.c Please propose, in relation to actual loss and reasonable royalties how damages should be determined when the infringing product forms part of a larger assembly

Same as 19.

20 Please propose principles your Group considers should be applied when quantifying the damages for indirect/contributory infringement in circumstances where there is no direct infringement of the IP rights in suit.

As discussed in previous questions, there are no provisions concerning consequential, collateral or punitive damages in the Mexican legal system. Nonetheless, it is our consideration that the same principles should apply no matter if the infringement is indirect or contributory.

21 Please comment on any additional issues concerning any aspect of quantification of damages you consider relevant to this Study Question.

One of the main problems to be faced when trying to request the payment of damages is, according to our legal system, to effectively demonstrate that damage was caused as a direct consequence of the infringing conduct. As we have mentioned, a general rule in Mexico is that only compensatory damages can be claimed. For this reason, our legal system could be improved by allowing competent courts to grant punitive or indirect damages since the first instance when resolving the corresponding claim.

Also, to allow civil or administrative courts, or also administrative authorities to grant damages as part of their decisions over those claims or controversies in which an infringement action should be resolved.

Please indicate which industry sector views are included in part "III. Proposals of harmonization" on this form:

IP lawyers representing various industry sectors.

Please enter the name of your nominee for Study Committee representative for this Question (see Rule 12.8, Regulations of AIPPI). Study Committee leadership is chosen from amongst the nominated Study Committee representatives. Thus, persons not nominated as a Study Committee representative cannot be in the Study Committee leadership.

Bernardo HERRERIAS