Mexico
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Report Q203

in the name of the Mexican Group
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Damages for infringement, counterfeiting and piracy of Trademarks

Questions

I) The state of the substantive law in the countries

1) *The Groups are invited to indicate, in summary form, if their national law distinguishes between different kinds of infringement, counterfeiting and piracy of trademarks and what the conditions are for liability for those different kinds of infringement, counterfeiting and piracy.*

The Groups are also invited to indicate if these various forms of the violation of trademark rights have an impact on the monetary compensation to be provided to the trademark owner.

In regard to the first paragraph of this question, since infringement of trademarks can be made in different manners or through different actions, Mexican law does distinguish different kinds of infringements, for example: unauthorized use of a trademark; imitation of a trademark; use of a mark similar to a registered trademark; to discredit or try to discredit the products and/or services, and/or industrial or commercial activities of a third party, etc.

However, the bases to calculate the compensation owed to the trademark owner are the same, namely: at least 40% of the retail price of each infringing product or service. If the trademark owner is able to prove that the amount of damages exceeds the above mentioned percentage, he is entitled to be awarded the higher amount.

2) *The Groups are asked to present in a summarised form the legal theories in their respective jurisdictions for the assessment of damages for the violation of trademark rights.*

Is this assessment based on the ground of civil liability or on the ground of violation of property ownership or some other ground(s)?

Prior to briefly explain the legal theories in our jurisdiction for the assessment of damages, it is important to state that under the Mexican Industrial Property Law, the trademark infringement is pursued in the administrative level. An infringement action should be initiated before the Mexican Institute of Industrial Property (MIIP) who should render a judgment whereby it is determined an infringement exist or not.

The plaintiff may claim damages to the infringer only after the MIIP's decision stating the existence of an infringement is confirmed by the Federal Court of Tax and Administrative Justice and by the Collegiate Courts of the Administrative Circuit if such decision is appealed.

This criterion is set-forth in the Resolution issued by the Mexican Supreme Court approximately two or three years ago, whereby it rendered a decision to resolve two contradictory decisions issued by two different Administrative Collegiate Courts. According to this decision, an affected party cannot try to assess damages, unless it has a confirmed administrative decision declaring the existence of the infringement and imposing a fine.

In view of the above, despite the assessment of damages, is possible and legally regulated in our jurisdiction, is not common, due to the time and cost involved to bring a legal action before a civil court after the Administrative Proceeding is concluded.

Consequently, there a few cases and criterions, that are not as developed as in other jurisdictions.

Having set forth the above, it should be stated that in Mexico, the legal theory for awarding damages to the victim of a trademark infringement is based on general principles of civil liability, either by breach of contract or in tort. As mentioned in 1) above, if the trademark owner is not able to evidence that the amount of damages is higher than 40% of the retail price of the infringed product or service, the compensation will be calculated based on said percentage, according to the Industrial Property Law (IPL). Claims for damages are normally worded in the following manner: "Order defendant to compensate plaintiff for damages sustained by the latter as result of the infringement. Said damages will amount to, at least, 40% of the retail price of each infringing product (or service), and will be liquidated in the state of enforcement of the final decision, based on the opinion of experts."

3) *The Groups are asked to indicate what factors are taken into account in the assessment of damages and how the value of the trademark is used in this assessment.*

a) *Do the Courts take into consideration how strong the trademark is, both in terms of its inherent distinctiveness and popularity acquired through use and publicity?*

No to our knowledge, but under the Mexican System Courts could take as an element the popularity acquired through use and publicity, but not necessarily the inherent distinctiveness as a means to the assessment of damages.

b) *Do the Courts take into consideration the investment made by the trademark owner in order to make the trade mark known?*

No.

c) *Do the Courts consider what direct effect the infringing activity has had on the trademark proprietors profitability? If so, how?*

Yes. It will be done based on the claim of trademark owner, pursuant to comments made in 2(a) above. Before the implementation of the Mexican Industrial Property Law, there was no indication how to calculate damages, so in the case TREVIRA GMBH Vs. TREVIRA TEXTIL, S.A., the court stated that the defendant who illegally adopted the TREVIRA trademarks as part of his corporate name should pay damages to the trademark owner, based on the percentage of payment of royalties, similar as if he would have an authorization to use the trademark through a license agreement.

d) *Do the Courts take into account price erosion? If so, how?*

No to our knowledge.

e) *Do the Courts distinguish between actual lost sales (i.e; the sales which would otherwisehave been made by the trademark owner) and all sales made by the infringer? If so, which sales matter?*

It will depend on the terms in which the claim of trademark owner is made.

f) *Do the Courts treat parallel imports differently ? If so, what is the legal basis for this differentiation?*

None. Up to our knowledge, no parallel import case has been submitted to the Court. As indicated, due to the trademark infringement cases have to be previously decided in the administrative level before MIIP very few cases were submitted to the Courts and there is no case related to parallel import.

4) *In case the compensation is evaluated on the basis of lost profits of the trademark owner or an account of the profits arising from infringement:*

a) *What are the key principles?*

The key principles are damage (loss or diminution of what belongs to someone [damnum emergens]) and lost profits (loss of future earnings [lucrum cessans]).

b) *How are the profits defined and how are they calculated?*

Profit is the difference between revenues and expenses. Since Mexican law requires that damage and loss of income must be the direct and immediate result of the breach (of contractual or non-contractual obligations, as the case may be), evidencing the same may prove to be very difficult, and in some cases impossible. For this reason, the IPL introduced the above mentioned minimum 40% compensation.

c) *What shares of the profits are attributed to the trademark owner and any licensees?*

None. The judicial decision awarding damages will be based on lost profits (see 4[b] above), or the 40% minimum. For licensee(s) to receive a portion thereof, they must be party(ies) to the complaint.

d) *Does the strength of the trademark come into play in apportioning the profits?*

No.

5) *In case the monetary compensation is assessed on basis of a royalty,*

a) *How is the royalty rate fixed?*

Consistent with responses given in 1), 2(a), and 4(a) and (b) above, royalties are not taken into account for non-contractual infringements. If the owner of the trademark and the infringer are parties to an agreement, and royalties were stipulated as the base to calculate the compensation, such agreement will be taken into account for liquidating the compensation.

b) *Do the Courts consider whether the mark in question is one which is or was available for licence? If so, how does this affect their analysis?*

No, it does not consider it.

6) *The Groups are asked to summarise what information in relation to the unlawful activities causing the violation of the trademark can be obtained by the trademark owner in administrative or judicial proceedings in order to assess the level of monetary compensation.*

The information which the trademark owner may obtain in administrative or judicial proceedings depends on the factual situations expressed in his complaint and the evidence which said party introduces, such as: inspection of certain books and records of his own and/or of defendant, the opinion of experts in accounting matters etc.

7) *One of the forms of the prejudice suffered by the trademark owner through the infringement is the damage to the trademark in a reputational sense (diluting exclusivity). The Groups are invited to report if this form of prejudice is considered by the Courts and what are the factors that are used in their evaluation?*

Based on comments made in 4(b) above, we believe that it would be extremely difficult for a trademark owner to evidence this type of damages in Mexico; and we do not know of a single case in which this issue had been raised in Mexico.

8) *The Groups are also asked to indicate if the moral/wilful element of the violation of a trademark right, and particularly the will to profit or gain from counterfeit activities (where the goods do not originate from the trademark proprietor or are not marked with his consent) is taken into consideration in the evaluation of the damages and/or the account of profits. If so, what are the consequences?*

The moral/willful element of the violation will not be taken into account to evaluate damages; those elements are only relevant for imposing administrative and criminal sanctions.

Consistent with the foregoing, ignorance is not an element to award damages; ignorance will only be taken into account for decisions of administrative and criminal nature.

The Groups are also asked to indicate if ignorance of the trademark and/or ignorance of the infringement is taken into consideration in the evaluation of damages or the account of the profits.

Finally, is the scale of the counterfeiting or piracy an additional element which influences the assessment of damages and/or account of the profits? If so, what are the consequences?

The scale of the infringing activity (counterfeiting, piracy, etc.) does influence the assessment of damages since, technically speaking the size or scope of the infringement would have a proportionate impact on the trademark owner's business.

9) *Is the evaluation of damages based on the same principles in cases where the infringement also constitutes a violation of a contractual obligation, for example, a violation of a licence?*

Yes; and if the contract provides for liquidated damages, compensation will be based on such stipulation; otherwise, damages will be assessed as explained in 1) and 2(a) above.

10) *The Groups are also invited to explain the problems and practical difficulties that the trademark owners face in the assessment of the damages and/or account of the profits for the violation of trademark rights?*

The problems and/or practical difficulties to calculate damages caused by the infringement of a trademark are many, and in addition to the "immediate and direct" cause-effect relation required by Mexican law, the owner of a trademark may be unable to prove damages, for instance, if revenues produced by his trademark increases, in spite of the fact that his trademark is infringed.

Other difficulty the trademark owner faces is the frequent insolvency of the infringer to afford the amount of damages to be paid.

11) *In some cases the national law may provide, as a remedy for the violation of the trademark right, for the confiscation of the products bearing the illicit sign.*

If this applies in their national law, the Groups are asked to indicate, if this confiscation influences the evaluation of the damages.

Confiscation of infringing products and/or implementation of any other measures by the Trademark Office aimed at stopping the infringement will not influence the evaluation of damages.

12) *The Groups are asked to indicate if the jurisprudence in their countries is a useful source of information and comparison on the assessment of monetary compensation for the violation of the trademark rights.*

In this context, the Groups are invited to indicate if they are satisfied with the degree of certainty in their laws on evaluation of the compensation.

In regard to the first paragraph of this question, it can be said that there is no Mexican jurisprudence in regard to assessment of monetary compensation for trademark infringements. There are some isolated Court precedents, but the fact that there is no jurisprudence can be explained by the following reasons:

i) The infringer is insolvent or cannot be identified or located. In this scenario, the actions of trademark owner will be aimed at stopping the infringement; or

ii) The infringer is well established (very likely the infringement was not deliberate or there were grounds for him to believe that there was no infringement) and the dispute will be settled.

In respect to the second paragraph of this question, we believe that the possibility to be awarded damages based on the percentage established by the IPL does provide with a satisfactory degree of certainty. The issue is that for the assessment of damages, it is required to obtain first a decision from the administrative authority that should be confirmed by the Courts in case of an appeal.

13) *The Groups are finally asked to explain any other issues related to the topic which would appear useful in the examination of the question.*

As the Mexican Legal System is in connection with assessment of damages, it should be considered whether or not the economical sanctions provided by the Industrial Property Law should be applied not only because of the infringement of the provisions of the Law, but also as a minimum indemnification in favor of trademark owner.

As the system is in Mexico, after five or six years of administrative litigation, the outcome will be the declaration of the existence of the infringement and the economical sanction, but the title owner is forced to initiate a new legal action before the Civil Courts in order to try to collect damages.

II) Proposals for the future harmonisation

1) *The Groups are requested to indicate if the evaluation of damages for violation of the trademark rights should be the subject of the international harmonisation and if this harmonisation should be undertaken through an international treaty.*

Considering the different level of development in the different jurisdictions, seems to be convenient the violation of damages for violation of the trademark rights should be the subject of stating minimum requirements as a means of international harmonization and prior to undertake it through an international treaty, that later on some countries do not comply with to establish minimum standards or guidance that should be the means to promote an international treaty.

2) *The Groups are requested to indicate what should be, based on their national experience, the harmonised system for the evaluation of damages for violation of the trademark rights.*

As indicated, the harmonize system for violation of damages should include minimum standards to be followed by the member states, as well as, the fact the different level of the economist of the countries and the problems the title owners and the courts of the different countries could face to really enforce it.

Summary

In the Mexican legal system it is possible to claim damages for trademark violations for undue use, imitation and forgery. Pursuant to the Mexican Industrial Property Law, the damages that can be

claimed shall never be lower than 40% of the retail price of the products or services unduly showing a trademark. However, in order to claim them, it is necessary to exhaust the violation administrative procedure before the Mexican Institute of Industrial Property and the resolution has to be confirmed if it is opposed before the courts. This has caused that, in practice, there is no procedure before the Civil Courts to claim them. Thus, some of the factors to be considered in the computing question have not been developed sufficiently in the legislation or in the jurisprudence. It is desirable to evaluate this scheme under a harmonization viewpoint, but from the viewpoint of fulfilling minimum standards before promoting an international treaty.

Résumé

Selon le système juridique mexicain il est possible de réclamer des dommages pour violation des droits de marque en cas d'utilisation illicite, imitation et falsification. Dans la Loi Mexicaine de la Propriété Intellectuelle, les dommages qui peuvent être réclamé ne sont jamais inférieurs à 40% du prix de vente au public des produits et services qui arborent une marque de manière illicite. Cependant, pour pouvoir les réclamer il est nécessaire d'épuiser la procédure administrative de violation devant l'Institut Mexicain de la Propriété industrielle et la résolution doit être confirmée en cas de contestation devant les tribunaux, ce qui a provoqué que, dans la pratique, on ne fasse pas recours aux Tribunaux Civils pour les réclamer. Par conséquent, certains des facteurs à prendre en compte pour son calcul n'ont pas été développés suffisamment dans la législation ou dans la jurisprudence. Une évaluation de ce schéma dans la perspective d'une harmonisation est souhaitable, mais dans une perspective de satisfaire des standards minimaux avant de promouvoir un traité international.

Zusammenfassung

Im mexikanischen Rechtssystem ist es möglich Schadenersätze zu beanspruchen wegen Verstoss gegen Markenrechten durch ungerechtfertigte Verwendung, Nachahmung und Verfälschung. Gemäss des mexikanischen Urheberrechtgesetzes, Schadenersätze die nie geringer sind als 40% des Kleinverkaufspreises der Produkte oder Dienste, denen ungerechtfertigt eine Marke aufweisen, können beansprucht werden. Jedoch, um diese Schadenersätze zu beanspruchen ist es nötig, das Verwaltungsverfahren für Verstoss vor dem Mexikanischen Institut für Geistiges Eigentum zu erschöpfen und die Entscheidung muss vor den Gerichten bestätigt werden, wenn es angefochten wird. Deswegen, in der Praxis, diese Schadenersätze sind vor den Gerichten nicht beansprucht. Daher, einige der Faktoren zu erwägen für deren Rechnung sind in der Gesetzgebung oder in der Jurisprudenz nicht ausreichend entwickelt. Es ist wünschenswert diese Übersicht zu bewerten unter der Aussichten der Harmonisierung, aber unter einem Gesichtspunkt Mindeststandards zu erreichen ehe einen Internationalen Vertrag zu fördern.