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The issue of parallel imports has traditionally been a difficult matter to deal with. Objectively speaking we can call it a "fair" situation where the trade mark owner loses control over non-authorized importations of original products after the goods are sold directly by the trade mark owner or by authorized third parties. That is, once he has released his products through commercialization, and has obtained the desired profit, the rights over the trade marked product is exhausted. This is considered to be fair as it is the principle manifested not only in Mexico but in many countries around the world.

Of course every problem has two points of view. For trade mark owners around the world (and more so for the owner's "exclusive" distributors, licensees or franchisees who are the ones that usually suffer more the consequences of this legal/economic phenomena) this so-called "fair" situation is turned into a nightmare.

Moreover, these distributors are not only paying an economic compensation for obtaining the exclusive distributionship, or the like, of a certain product, and complying with any number of standards imposed by the trade mark owner to protect the quality of products. They also sometimes pay for the advertising campaigns that end up benefiting the parallel importer, obviously obtaining lower profits from the commercialization of their products because generally speaking they are more expensive than the importer's products. Eventually they lose interest, economic capacity or both, when they realize they are competing with the legitimate products at a lower price.

The problem increases with parallel imported goods that are lower in price than those already in that territory. It becomes even worse if they do not comply with standards that are imposed by the local laws in the country of import of the trade mark owner, and if the parallel importer does not offer after sales

services and warranties.

The above scenario is endlessly repeated throughout the world in countries where parallel imports are allowed (such as Mexico). Parallel imports strike the Mexican market in two different ways, namely copyright (the provisions of the Mexican Copyright Law) and trade marks (the provisions set forth in the Mexican Law of Industrial Property (LIP)).

COPYRIGHT LAW 1996

The Mexican Copyright Law as drafted before 1996 did not make express mention on the moment when a particular copyright is exhausted. The law did not recognize a first sale doctrine or anything similar.

However, the Copyright Law when amended in 1996 seems to allow international exhaustion of rights. Although it is questionable whether it would provide the tools or mechanisms necessary to stop indiscriminatory practices, it considers in Article 27(IV) a right of distribution of protected works of authorship as well as a first sale exception to that right. It also grants a right of importation of illegitimate copies as a part of the bundle of patrimonial rights. However, as the Copyright Law does not specifically grant to the holder a right to prevent importation of legitimate copies of works of authorship, it can be concluded, *contrario sensu* that Copyright Law is in favour of international exhaustion and consequently parallel imports.

TRADE MARKS TROUBLES

The NAFTA and TRIPs agreements do not address parallel imports specifically. However, NAFTA has made an express pronouncement in favour of the protection of IP rights as long as they do not constitute a bar for the free circulation of goods and services: "Each party shall provide in its territory to the national of another party adequate and effective protection and enforcement of intellectual property rights, while ensuring that measures to enforce intellectual property rights do not themselves become barriers to legitimate trade" (NAFTA Article 1701 (1)). Article 1 of TRIPs could be interpreted as saying the same thing. NAFTA has sought to balance the confrontation of interests of the right freely to circulate products from the territory of a particular country to another which logically has affected the owners of trade mark registrations whose exclusive

rights are reduced in scope.

The Mexican government's intention to solve the above referenced problem was reflected in the Law of Industrial Property of 1991 (formerly known as the Law for the Promotion and Protection of Industrial Property) amended in 1994.

Accordingly, the Mexican Congress approved Article 92 Section II as follows:

Article 92. The registration of a mark will have no effects against:

...II- Any person trading with, distributing, acquiring or using the product to which the registered trade mark is applied. After said product had been legally introduced into the market by the holder of the registered trade mark or by the person to whom a licence had been granted.

Included in this hypothesis is the import of legitimate products to which the trade mark is applied, made by anyone for its use, distribution or marketing in Mexico, in the terms and conditions established in the regulations of this law. As originally implemented, Article 92(II) appeared to allow parallel imports in a fairly blank form. The literal interpretation of this provision is that it was so broad that it practically allowed third parties to import goods into the Mexican territory as long as the goods were legally introduced into commerce by the owner of the registration or an authorized licensee and the product was legitimate.

The terms "legally introduced" and «legitimate products" have become the issues when discussing the parallel imports issue in Mexico. In conformance with the Laws of Mexico, industrial property rights are exhausted after the fulfilment of certain events. In the particular case of trade marks, the LIP in Article 92 Section II paragraph one recognizes exhaustion of rights at a national level. This means that trade mark owners will not be allowed to impose limitations, restrictions or prohibitions on any further sale of a trade marked product as soon as it has been "legally introduced" in the market of the Mexican Republic.

For some Mexican IP lawyers the term "legally introduced" is necessarily restricted to Mexican laws. However, it is a principle of written law that when the law does not distinguish, no distinction can be made of it. Thus, the term legitimate must not be restricted to products qualifying for exclusive protection in accordance with Mexican law, but with the laws of the country of export as well. This necessarily would have allowed foreign fake products (which were of legitimate origin in accordance with the local laws of the country of export) to freely enter the Mexican territory and compete with originals that had been

produced and or sold in that market.

The Law of Industrial Property does not provide a concept or explanation to the broad term legally introduced. As a matter of fact, no Mexican law provides a concept of legal act per se. However the Civil Code as supplementing law to the LIP describes what we must understand as an illegal act. According to Civil Law, a person who acts illegally or against good customs, and as a result of said action causes damage to another party, is obliged to repair it. Moreover, when signing a contract against the provisions set forth in the laws and making it its main purpose, the act shall be considered illegal as opposed to legal and thus the parties are not bound by the contract as no-one can be obliged to act illegally.

Therefore, something is illegal when it goes against that established in laws or against good customs which have a legal recognition under Mexican law. However, this illegal act must harm other parties' interests, or the nation's interests when the law it breaches is considered of public interest. If not, the fact that someone acts illegally does not have any negative effect to the breacher.

Thus, if we understand that article 92 section II is considering as a sine qua non condition the fact that the legitimate products are introduced legally in commerce, paragraph two extends the territorial scope of that provision to any country in the world. Accordingly, trade mark rights are exhausted whenever the transmission of a trade marketed product has been made abroad, regardless of the particular country. It can be noted that the limitation imposed on trade mark rights by virtue of the exhaustion doctrine is not reduced to the Mexican territory only or to the NAFTA countries. However, said exhaustion does not legally exist if the introduction was made illegally in the sense of affecting the rights of the trade mark owner protected under the corresponding laws. This of course exceeds by far what most other countries in the world protect in terms of the exhaustion of rights doctrine.

On the other hand, the Regulations to the LIP in Article 54 made clear that introduction of the product in the market of the country from which it is imported will be legitimate if it is made by the owner of the registered mark in the country of export or of its authorized licensees, and that the owners of registrations in Mexico and the foreign country are the same person or corporation, or are members of the same group of economic interest or their licensees or sublicensees, by the time the products are imported into the

Mexican territory. In addition, it would have to comply with product standards and regulations and consumer law provisions.

A complex corporate formula for a group of economic interest was also provided based on the level of interrelationship between two corporations or entities and the direct or indirect control that one has over the other or others. In the light of the foregoing, the legitimate product concept has been fully explained by the Regulations to the LIP.

SOLUTIONS TO THE PROBLEM

If we take a step back in order to see the whole picture and considering our experience in Mexico, we must conclude that parallel imports necessarily start near the source, generally at a distribution level. That is, in order for parallel importers to have a good business going they need the best price they can get which must be obtained near the source. That is, if we were to determine where the parallel importer is purchasing the products, we must say that it is directly from any distributor at a retail price. Why? Because the larger the commercial chain becomes with intermediaries, the higher the price the parallel importer must pay for products. This would automatically stop parallel imports as it will no longer be good business.

Traditionally the general solution to the parallel imports phenomena has been sought through corporate limitations set on the contracts executed between the trade mark owner and his distributors, licensees or franchisees. These corporate limitations are set on geographical areas, restrictions towards quantity of production, etc. However, we think this only a preventive solution. If the problem has been triggered without these corporate limitations then we must consider other alternatives.

If we have determined that the products are legitimate taking into consideration the concept of "legitimate" set forth in our LIP, then we must ask ourselves if the legitimate products were legally introduced in commerce. In order to find out this information, the client's input in investigating its distribution chains and checking that every distributor is complying with their contracts is very important. Also, analyzing every law related to commerce and export in the country of origin of products is the key to trigger any kind of action in Mexico to

prove that the products have entered Mexico illegally.

In conclusion, you need to show that there is a breach of contract or a violation of the laws of the country where the products were originally introduced in commerce and that, derived from this violation, there is a judicial resolution.

This resolution could then be used to prove that the introduction of the products into Mexico is illegal as it was made without the authorization of the trade mark holder. It would accordingly not fall within the exception contained in Article 92 of the Law of Industrial Property. You could pursue a preliminary legal action for unfair competition and also trade mark infringement against the parallel importer(s), perhaps using a previous notice as the importer would not have an authorization to distribute or sell the products in Mexico, due to the illegitimate introduction to commerce.

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