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I. THE PRACTICAL IMPORTANCE OF MERCHANDISING

1. IN WHAT FORM AND IN WHAT WAY IS MERCHANDISING USED IN THE COUNTRY IN QUESTION AND WHAT ARE THE SIGNS AND SYMBOLS WHICH ARE MOST WIDELY USED FOR THAT PURPOSE?

Mexico represents an important producer of merchandising products. This is true if we consider the size and organization of its entertainment and communication industries. Many brands and characters have been merchandised as a result of the production of TV programs and movies; the organization of sport, cultural and musical events; and the production and commercialization of products and rendering of services, among others. The following categories represent the most common examples where this industry has focused in Mexico:

- a) **Brand merchandising:** Consisting in the use and promotion of marks - being of special interest those which have become famous among the consumer public and which have proven to be a successful sell-through at retail-, in a wide range or consumer, retail or promotional products or services (secondary products or services) that do not necessarily relate to the industrial, service or commercial sector in which the mark has been traditionally used and made known. The use of brands in consumer, retail or promotional products or services is done in order to increase the means in the appeal of said products and services and therefore obtaining major marketability results.
- b) **Character merchandising:** Consisting in the use of forms, figures, drawings or designs of fictitious persons, the likeness, appearance of real persons and names, nicknames, voice and other recognizable characteristics of both, known as a result of literary, artistic or cinematographic works, cartoon stripes, TV

programs and others, also in connection with consumer and promotional products and services for mass marketing. Therefore, the intention is to use their personality features or characteristics and, as in case of brand merchandising, to increase the possibilities for the marketing of any secondary product or service that can be imagined.

c) **Event merchandising:** This is similar to brand and character merchandising, however, as the duration of the event is normally short in time, the marketing structure and approach may be time-focused and the merchandised product or service may be specifically thought for the event itself. It is not the same to plan a merchandising program for sport events, music events or any other form of event, as the target market will be distinct in every case. In this regard, the products and services subject to merchandise are generally distinct. In addition, in case of events, special and theme related items are normally licensed to reflect the nature thereof, and licenses are granted to sponsors, promoters and even venue licensing program service purveyors, all of them using the symbols that identify the corresponding event.

From a purely business and financial standpoint, merchandising projects will better serve their purposes if the brand, character or event has become or will be attractive to the consumer public. According to the experience in Mexico, penetration and recognition of the brand in the market or character in the entertainment world is normally required prior to engaging in the actual development of a particular campaign and in this respect, communication media and publicity play essential roles.

In case of characters, there is a very large audience that watches TV shows, soap operas and movies or read magazines, books and comic stripes on a daily basis, and the corresponding characters generally become real stars among the people for the period of time that the show is on the air or the movie performed. The same happens with regard to artists, singers and musical groups. Many times the image, name and/or voice of the character or artist - in case of real persons - or the shape, name and/or voice of fictitious characters have been used in connection with the production and marketing of a range of secondary products directed to attract the same target audience to which the show, program, movie or musical piece was originally focused. The nature and quality of the merchandising products and the size, level and sophistication of the project

depend on whom the show or program is directed to. In addition, the length will be commensurable and proportional with the popularity of the character and will be thus justified for all the time that it remains in fashion. Therefore, it is quite transcendental for those running the campaign to take advantage of this momentum for planning, developing, launching and maintaining the business program.

The case of brand merchandising is similar to that of characters and all the aforementioned is basically applicable; however, there may be a difference in the time and effort that is required for developing "goodwill" in a mark, which normally takes many years. For this reason trademark owners have to be specially careful in protecting their proprietary rights on their marks against piracy, infringement and dilution. Licensing agreements are required to provide at least a quality control provision.

Origin of the mark or character subject to merchandising is not deemed to be a truly important advantage, considering in addition to that coming from abroad, Mexico has developed its own local merchandising industry and has created its own market niche.

Thus, besides the presence of multinational corporations as Warner, Disney, Hannah Barbera and many others, there is a national industry running in a parallel direction and sharing a portion of this market. There are Mexican characters, both fictitious and real, in many different fields such as sport, music, TV or cinematography that have been extensively used and accepted in this country and even abroad. Also, a number of Mexican characters have been ex profeso devoted to the advertisement of products or services.

The case of brand's merchandising varies somewhat from the case of characters' as it relates to a market primarily controlled by foreign companies; however, there are also many Mexican brands that have been merchandised with success.

Finally, as to event merchandising, Mexico has proved to be an active organizer of sport, musical and cultural events of international level. The most important examples represent the Olympic Games of 1968, and the Soccer World Cups of 1970 and 1986. In all three cases corresponding merchandising programs were conducted based upon the symbols that were developed for those events.

2. WHAT IS THE ECONOMIC AND FINANCIAL IMPORTANCE OF MERCHANDISING AND IN PARTICULAR IN WHICH ECONOMIC SECTORS?

As already mentioned, in Mexico merchandising of brands, characters and events has a real financial importance and meaning. Indeed, it has spread over many different industrial and commercial sectors and has reached a wide range of different products and services. Probably, the industries that have benefited the most with merchandising programs are all those related to entertainment, TV, movie, music, editorial, sports and now even software and multimedia, among any others. The size of the industry and statistics on annual sales and revenues is something difficult to calculate as the value in every project varies from others in size, importance, duration and so forth.

The importance of this industry can be also appreciated due to the existence of a parallel piracy market, in which strong interests of economic nature are involved. In Mexico this problem started developing in the early seventies as a result of the protectionist policies adopted and implemented by the Government in order to foster a national industry. Thus, as no surveillance and control measures were adopted, the problem grew so much that during the eighties, when something was tried to be done, it had already become out of control. In the present, the Mexican Government has been much more concerned with enforcing intellectual property rights, including those arising from merchandising, and has achieved positive results, but future administrations will have to multiply efforts.

II. THE LAWS WHICH DIRECTLY OR INDIRECTLY APPLY TO MERCHANDISING

1. ARE THE SPECIFIC LEGAL PROVISIONS APPLICABLE TO MERCHANDISING?

None of Mexican Intellectual Property Laws provide anything in particular dealing with merchandising. Notwithstanding the foregoing, the general principles and legal provisions of Mexican Intellectual Property Law are applicable to merchandising as its corresponding subject matter may precisely

be protected by this field of law.

Merchandising represents the commercial exploitation of brands, designs, colors, names, shapes, figures, voices, and the likeness and other personality features of people, in connection with consumer and promotional products and services. As mentioned, the complexity of this industry requires the participation and concurrence of most every form of intellectual property protection, including trademark law, copyright law, design law, unfair competition law, licensing law and even contract law in general.

2. WHAT IN THE COUNTRY IN QUESTION ARE THE USUAL RULES OF LAW WHICH CAN BE APPLIED TO RESOLVE THE DIFFERENT PROBLEMS RAISED BY THE USER OF MERCHANDISING?

A) Contract law: Contract law in general and licensing law in particular constitutes a basic form for protecting merchandising, in which normally the owner of the rights authorizes the making of products or rendering of services, in connection with the symbol, image or related right subject to merchandising. Generally speaking the titleholder of the mark or copyright is not able to engage in the manufacture and/or marketing of the merchandising products, and therefore this will only be achieved if an adequate licensing program is performed, directly by the title holder itself or through agents.

In addition, contracts may be employed to authorize the use of the image, appearance, likeness, voice, name and other personal characteristics of a person, which are not necessarily protected by Trademark, Copyright or Design Law. The Mexican Trademark Law provisions on licensing are directed to protect the use of marks by authorized third parties, in the benefit of the owner of trademark and the consumer public. Licensing provisions are also found in the Copyright Law, although they are not as strict in terms of standard protection and quality control as the rules in Trademark Law.

Mexican merchandise licenses typically include clauses on trademark and copyright law. This is specially seen in cases in which the subject matter of the licensing agreement is protected by both fields of intellectual property law, as it is the case of characters and titles. The most important provisions are generally

ownership of the trademarks and copyrights and limitations of use. For example, the license may be limited for the use of a particular feature of the character (voice, likeness, etc.), for the exercise of one or more specific rights (reproduction, public performance, etc.), or for the use of a brand, title or character in connection with a particular line of products or services. As mentioned above, in the case of trademarks the Mexican Law on Industrial Property (LIP) imposes an obligation of quality control by stating that "the products that are sold or the services that are rendered by the user must be of the same quality as those manufactured or rendered by the holder of the mark "(Article 139, LIP).

B) Trademark law: The LIP protects visible and distinctive symbols and brands such as word marks, commercial and establishment names, trade and company names, slogans, two or three dimensional design marks, labels and shapes of products and their containers, digits, colors and letters when they are not used in an isolated manner, titles of works of authorship and publications and titles of TV and radio programs, with the consent of the owner of the corresponding rights and even the name, image and likeness of people, the picture and drawings, the image or shape of fictitious and real characters, and their names, pseudonyms, signatures and portraits, with authorization.

Most of the afore mentioned elements may represent the subject matter of merchandising programs. Accordingly, the following principles, rules and general provisions are equally applicable to trademarks subject to merchandising as they are for other type of brands.

a) **Source of rights:** In accordance to Mexican Trademark Law, exclusive rights arise only from registration of the mark in Mexico, however, a person who has used in the country an identical or similar mark without registration has rights if the use was made in good faith, continuous and commenced prior to the filing date of an existing registration for the same or similar mark covering the same or similar goods or prior to the date of first use declared by registrant in the application papers. An existing trademark registration cannot be opposed to a good faith previous user. Previous user has the right to apply to register but to obtain registration he shall have to take cancellation action against the existing registration within three years following the date in which the Trademark Gazette publishing the existing registration is put into circulation.

b) **Registrability:** As in other countries, Mexican Law establishes that marks are registrable if they are inherently distinctive, that is, if they are suggestive, fanciful and arbitrary. On the other hand, it prohibits registration of generic and descriptive marks, and in this latter case, it does not recognize protection even if the descriptive mark has acquired a secondary meaning.

c) **Products and Services:** In any merchandising protection program it has to be borne in mind that in accordance to the 1994 amendments to the industrial Property Law (LIP), trademarks need to be registered with respect to specific products or services. It still will be required to file as many applications as needed depending on the nature of products or services subject to merchandising and the international classes to which they pertain. Under the former Law and for many years it was possible to seek for registrations that covered the entire heading of a particular class, however, as mentioned, now applicants shall have to be careful in citing all products or services of interest in a particular class.

d) **Marking:** Marking of goods and services by using either the legend MARCA REGISTRADA, MAR. REG., M.R. or the R symbol can be only made on products or services covered by a registered mark. Additionally, marking has become an important requirement in conformance with the amended Law, considering that it will have to be shown in the products distinguished under the registered mark before taking civil and criminal actions as well as requesting preliminary injunctions.

e) **Titles and Characters:** With regard to titles and characters, the Mexican Industrial Property Law (LIP) establishes that titles of intellectual or artistic works, titles of periodical publications, characters, artists names and names of artistic groups are not deemed to be registrable without the express consent of the corresponding titleholder and if inadvertently registered by the Trademark Office, the LIP grants a cancellation action against such a registration.

f) **Cancellation Actions:** Finally, article 151 second paragraph of the amended LIP, sets that cancellation of a registration will be available on the basis of non-interrupted use of the mark in Mexico or abroad, commenced before the filing date of the spurious registration that is subject to cancellation. Also, new article 91(XV) of the LIP states that well known marks are not deemed to be registrable

and if they become registered by any means, they will be subject to cancellation under Article 151(1). The amended provision defines what should be understood for "well known" in accordance to the Law. Thus, it states that a mark will be deemed as well known when a particular sector in the public or commercial circuits in Mexico is acquainted with a mark as a result of the commercial activities carried on in Mexico or abroad, by any person that employs the mark in connection with their products or services, as well as the knowledge that one has of the mark in the territory (Mexico), from the promotion and publicity give to the mark.

C) Copyright Law: Mexican Copyright Law grants protection to intellectual creations, including artistic and literary works of authorship. The Law considers to be "works of authorship" all those original intellectual productions or expressions of human sensibility, talent and ingenuity that are fixed in a tangible medium of expression, regardless of the inherent quality or aesthetic value of the work itself. Authors are entitled to moral rights (paternity and integrity) and patrimonial rights (including reproduction, publication, control of derivative works and public performance). Drawings, sculptures, pictures, audiovisual and other visual art productions can be protected through copyright law and including characters, protection may be extended thereto as part of the expression in the work, however, this will not necessarily mean that the underlying idea will be covered as well. The particular case of literary works is not so clear and protection may not be available to the character per se and independently conceived from the work as a whole.

Under Mexican Copyright Law it is possible to protect derivative works, such as adaptations, of other serving as the underlying production, and this represents an additional form of using and exploiting a particular character so to create an additional merchandising opportunity.

Mexican Copyright Law recognizes additional sui generis protection for titles of publications and radio and TV programs, as well as fictitious and real characters, among other figures, that are remarkably original and periodically used through a legal figure known as "Reserva of Exclusive Rights". In accordance to the Copyright Law, protection to "Reservas" differs from that afforded to works of authorship and owes a closer similarity to principles of Trademark Law. Accordingly, "Reservas" confer patrimonial rights of exclusive use for characters, titles, etc., but do not recognize additional personal or "moral" rights. From a procedural standpoint, deposit and periodical renewal are required for

maintaining "Reservas" in force, on a use of title or character basis, and in connection with publications and broadcasts, among others. Additionally, examination of "Reserva" applications has a closer similarity to Trademark Law, however, as the corresponding prosecution proceeding is not as well regulated and developed as that of trademarks, the Copyright Office has sometimes fell into problems and imprecisions when trying to follow a standard practice.

As mentioned above, merchandising involving titles and characters can generally be protected by Trademark, "Reserva" and even Copyright Law. In the practice there is no restriction on the cumulation of copyright "Reserva" and trademarks. When facing these type of "double protection" situations, cumulative protection is normally recommended considering the legal problems and disputes that may arise should one or more entities seek for registration or protection for the same character or title. Trademark, "Reserva" and Copyright provisions, have been confronted in many occasions when an entity holds a trademark registration and someone else a "Reserva" or copyright registration, in regard to an identical title or character. There are practically no provisions or resolutions addressing the issue. Probably, the cancellation provision in the Trademark Law should prevail and Copyright Law should thus preempt, however, such a provision would have only a limited effect due to its incapability to solve all factual problems arising from its application. Just to provide an example, how would this rule be applied if a title or character is used in connection with a publication and a third party then comes out with the filing and obtaining of a trademark registration? Should this registration be cancelled despite the lack of a senior "Reserva"? These uncharted areas triggered by the application of the "double protection" doctrine could bring serious problems to any merchandising protection effort, if not adequately canalized and treated.

One additional problem is that the Copyright Law does not convey any particular mechanism for enforcing rights arising from character "Reservas". Mexican Government should take this into account for future amendments as there is a considerable discrepancy with respect to title "Reservas", which are enforceable by criminal law.

Finally, the Mexican Copyright Law states that portraits of people may be used and published for purpose of gain, only with the express consent from the person or persons appearing in the picture or his or her representatives or

assignees. By extending rights to the common people in connection with portraits and other form of image fixation, said provision aims at ensuring that not only authors and artists are protected from the non-authorized use of their image, name and other personal rights.

D) Designs and models: Accordingly to LIP, design law is directed to protect three and two-dimensional forms and the combination of figures, lines and colors embodied in industrial products or representing the model, shape, pattern or guide for the production of industrial products. The foregoing definition is sufficiently broad to cover practically any form of figure as long as it is applied to industry. It thus should not be disregarded that an industrial design may constitute the subject matter of a merchandising program and accordingly this form of protection may be extended thereto.

E) Rights of the individual and respect for private life: The Federal Civil Code of Mexico protects people against any damages of "moral" or "personal" nature perpetrated by third parties, when their sentiments, affects, beliefs, decor, honour, reputation, private life, image or physical characteristics are affected. In case of violation of moral rights, the offended party is entitled to be restored by virtue of an indemnization from the offender, and the judge shall have to decide upon the degree and nature of the violation and the economic capacity of the offender, and the offended party. The indemnization action shall only be transmissible to heirs of the offended party when this latter filed the action in life. If the moral damage affects the offended party in his or her decor, honour, reputation or consideration, the judge shall order by the request of said party, and charging the corresponding expenses on the offender, the publication of an extract from the resolution for public information purposes.

Whoever exercises his or her rights of opinion, critic, expression and information, shall not be liable of "moral" damages as long as the opinion does not attempt against the limitations imposed by the Constitution on the civil right of free speech, opinion and publication.

Mexican Law recognizes the existence of damages of civil nature steaming from contractual relationships or caused by illicit acts, attempting against the Law or "good practices or customs", which injure, harm or damage third parties, but do not reach the level of criminal offences. Under Mexican Civil Law, harm is understood as the loss of diminishment suffered by a person's equity from

default of an obligation or as the result of an illicit act. It is very important to consider that under Mexican Law responsibility for responding and repairing harm and damage to third parties must be the immediate and direct result of the default of a contractual obligation or of the commission of the illicit act. In case of "moral damage" the Mexican Civil Code and the jurisprudence require that harm and damage are fully proved as the direct result of an illicit conduct. The nature of "moral damage" is not material and differs accordingly from damages and harm that generate from those recognized by the Civil Code as "objective responsibility", precisely dealing with damages of material nature arising from breach of contracts or commission of illicit conducts. The figure of "moral damage" is autonomous and the application of damages shall necessarily follow the rules explained heretofore and in which equity plays a more important role.

The above rules are applicable to merchandising, where the subject matter is the image, likeness, name or voice of a person, independently of the fame preceding him or her, and are considered independently from the protection afforded by the Copyright Law to the use of portraits and fixations of images and visible characteristics of persons.

F) Unfair competition: In accordance to the Mexican Law on Industrial Property (LIP), the Mexican Industrial Property Institute (IMPI) is empowered to repress and impose sanctions on those acts attempting the good and honest practices in the industry and commerce and the Laws of Congress. Specifically, the LIP provides two different causes of infringement action that are independent from each other, but in combination aiming at ensuring that unfair competition is sufficiently ruled and sanctioned. They are supported on the text of article 10 bis of the Paris Convention and constitute the implementation of said international provision into domestic Law. Accordingly, article 213, paragraph 1 of the LIP, provides a general statement widely enough to challenge any conduct violating fair practices in commerce as related to the industrial property field. On the other hand, article 213 paragraph IX of the LIP provides a more restricted rule prohibiting all those industrial or commercial activities that actually cause or are likely to cause confusion, error or deceit among the consumer public, by making it believe or presume, without any grounds, the existence of a relationship or association in the production or sale of products, the rendering of services, or between commercial establishments.

Merchandising may be protected by the rules of unfair competition specially when the corresponding intellectual property right has not been registered or is not registrable as a trademark, but happens to be distinctive anyway and has been used by a third party without the corresponding authorization.

G) Parasitic competition: No particular rules on Parasitic Competition are provided by the LIP, besides the general provisions on unfair competition.

III. THE EXISTING DIFFICULTIES

Are the existing intellectual property laws adequate to satisfactory settle all the problems which are raised nowadays by merchandising?

A. IN THEIR COUNTRY, ARE THERE LEGISLATIVE OR CASE-LAW INADEQUACIES?

Is there a need to improve the rules governing merchandising?

As it can be appreciated from the afore mentioned comments Mexican laws adequately protect brands, characters, works of authorship, designs and other forms that could constitute the subject matter of merchandising. However, there are many inadequacies that could be improved.

B. IN THE AFFIRMATIVE, WHAT WOULD BE THE BEST WAY OF PROCEEDING?

1. Should there be a specific law of regulating all aspects of merchandising? In that case however, is there not the risk that such a law may come into conflict on many points with intellectual property laws which already exist?

There is no need to set a special Law for regulating aspects of merchandising.

2. Would it not be sufficient to provide the amendments in the laws which exist nowadays in particular in some countries, on the following points:

a) In the law relating to marks:

- To accept for registration signs which are not accepted at the present time such as the names of people, images, slogans, titles of publications and elements of artistic creation such as characters and others?

All of the above is protected by Mexican Trademark Law.

- To accept that the use made by a third party with the authorization of the owner of the rights within the framework of merchandising is deemed to comply with the requirements of use for maintaining the trademark right, irrespective of the form of such use.

This is also possible under Mexican Trademark Law.

b) As regards to copyright would it not be appropriate:

- To accept that characters and their names could be deemed to be artistic creations which are suitable for protection; and

This is possible under Mexican Copyright Law.

- That use of the character or his name, by a third party, without the right to do so, irrespective of the form of such use, is deemed to be an infringement?

This is also possible under Mexican Copyright Law.

Notwithstanding that the different Laws on Intellectual Property deal with all the points that are discussed above, it is still necessary to improve protection in the following points:

a) The Laws need to provide a more accurate regulation avoiding interference problems arising in case of titles and characters that are equally protected by trademark, "Reserva" and Copyright Law. This in order to promote that "Reservas" and trademark and copyright registrations in regard to one single character or title remain in the legal sphere legitimate entity having created it or owning the corresponding rights, without the possibility of further disputes.

b) Improving protection, prosecution and marking systems regarding "Reservas". Also, establishing better cancellation rules and enforcement in general with regard to "Reservas".

c) Establishing a coordination system between the Trademark and Copyright Office.

Summary

Merchandising is important in Mexico, considering the size and importance of its entertainment and communication industries. This has been reflected in the development of its brand, character and event merchandising industry.

Origin of the mark or character subject to merchandising is not deemed to be a truly important advantage in this country, considering that in addition to that coming from abroad, Mexico has developed its own local merchandising industry and has created its own market niche. The importance in economic and financial terms has to be considered too, specially because merchandising has

grown in Mexico and spread over many different industrial and commercial sectors and has reached a wide range of different products and services.

The usual rules of law applicable to resolve the different problems raised by the use of merchandising can be principally found in trademark law, copyright law and contract and licensing law, but design law, the civil code rules on private and moral rights of individuals, and unfair competition law cannot be disregarded as additional legal supports.

The Mexican Trademark Law considers as registrable not only word and design marks, but also the name, image and likeness of people, with their consent and titles of works, publications and programs; drawings and portraits of real and fictitious characters, also with their consent.

The Mexican Copyright Law has provided a sui generis legal figure, independent from the protection that is afforded to works of authorship, which is called "Reserva of Rights" for the exclusive use of real and fictitious characters and titles of publications and broadcasting programs, among others. This form of protection is additional to trademark and copyright law (with regard to works of authorship) and has led to what is known as "double protection". The Mexican Copyright Law also extends protection for portraits and pictures of people, no matter whether famous or not, against non-authorized publications. Accordingly, Mexican Intellectual Property Laws protect sufficiently the subject matter of merchandising, although it is needed to establish a coordinated system of protection in case of "double protection". Also, "Reservas": need to be better regulated from a prosecution, renewal and enforcement point of view.