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The good news is that Mexico has undergone a major legal and economic reform. Since 1983, the country has moved from economic protectionism to a new open border policy that looks favorably on international trade, technology transfer and investment. As a result, the amount of imports entering Mexico has significantly increased.

The bad news is that, as a result of the new open border policy, Mexicans must now confront the problem of parallel imports. Goods bearing Mexican trademarks are being shipped into Mexico without the consent or control of the owner of the Mexican mark. The Mexican government is, however, attempting to provide some protection to Mexican trademark owners.

The problem of parallel imports is not unique to Mexico. In much of the world, trademark owners generally lose control over non-authorized importations of original products once the products are sold by either the trademark owner or authorized third parties such as distributors, licensees or franchisees. If the goods are resold and exported into another territory, this can create serious difficulties. If these grey-market imports are lower in price than those already in the territory, this can significantly hurt sales of the product by the territory's trademark owner. The problem can become even worse if they grey-market imports are of inferior quality or do not comply with territory's legal standards.

The Mexican government has entered into two main treaties on the subject of international trade and intellectual property rights: the North American Free Trade Agreement (NAFTA) and the Uruguay round's Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs). One commentator has stated that NAFTA "[i]s the most comprehensive multilateral intellectual property ever concluded, and generally establishes a higher level of protection than any other bilateral or multilateral agreement^[1]. However, neither NAFTA

nor TRIPs contains provisions specifically concerning parallel imports.

NAFTA expressly provides for the protection of IP rights as long as such protection does not constitute a bar on the free circulation of goods and services^[2]. Similarly, Article 1 of TRIPs can be interpreted as providing for a balanced system of rights between traders and intellectual property owners. Thus, although neither treaty specifically provides for protections against parallel imports, neither treaty specifically prohibits national laws from dealing with the problem.

PROTECTS PARALLEL IMPORTS

In 1991, Mexico did enact a statute dealing with parallel imports. On its face, however, Article 92(II) of the Law for the Promotion and Protection of Industrial Property (LPPIP) seems to allow practically every type of parallel import.

The statute states: “The registration of a trademark will have no effects against...any person trading with, distributing, acquiring or using the product to which the registered trademark is applied after said product has been legally introduced into the market by the holder of the registered trademark or by the person to whom a license has been granted.” The statute goes on to expressly state that this provision covers the “import of legitimate products to which the trademark is applied”.

For the first several years of its existence, this statute was interpreted literally. The statute was read as authorizing third parties to import grey-market goods into Mexico provided the goods were legitimately introduced in commerce by the trademark owner or an authorized licensee.

Moreover, the term “legitimate products” was not necessarily restricted to products that complied with Mexican trademark law. The term could also have been applied to products that merely satisfied the trademark laws of the exporting country. This allowed foreign products bearing a Mexican trademark to be exported to Mexico even if the products were not made or licensed by the Mexican trademark owner. So long as the products were of legitimate origin in accordance with the local laws of the country of export, they could be freely

exported to Mexico and compete with genuine Mexican products.

REGULATIONS TO THE RESCUE

The regulations of 1994 changed this interpretation of the statute. The regulations made clear that a product made in a foreign country is “legitimate” only if (1) the product is made by the foreign country’s trademark owner or authorized licensee, and (2) the mark’s owners in both Mexico and the foreign country are either the same person or corporation, or members of the same “group of economic interest” or are their licensees or sublicenses, at the time the foreign products are imported into Mexico.

The regulations set out a complex corporate formula defining “group of economic interest”. This formula examines the level of interrelationship between two (or more) corporations or entities and the direct or indirect control that one has over the other (or others).

One of the greatest concerns in allowing parallel imports of foreign legitimate products has been whether the products must satisfy the quality standards of the Mexican trademark owner as well as the quality standards imposed by Mexican law. The quality of products can vary widely, of course, especially when one is comparing products manufactured in different territories and by different parties. The issue is thus whether foreign legitimate products, but of lesser or different quality, should enter Mexico without restrictions.

The original draft of the 1994 Regulations prepared by the Mexican Institute of Industrial Property (IMPI) created a system of control measures. This proposal was weakened by the time the Regulations were ultimately adopted.

The final draft of these Regulations state that a foreign product is “legitimate” if it complies with Mexico’s consumer laws and Mexico’s legal requirements concerning product standards and regulations. However, the final Regulations make no mention of measures to ensure that the imported goods satisfy the quality standards of the Mexican trademark owner. It remains to be seen how this issue will be treated in the future by the IMPI and the Mexican courts.

The final Regulations also say nothing concerning the repackaging and relabeling

of grey-market products. However, it can be expected that, if repackaging or relabeling of products is used as means of misleading consumers (for example, as to quality or origin of the products), the importation of such products can be prohibited.

The statute and regulations do not forbid grey-market resales of legitimate Mexican products-i.e., products legitimately made in Mexico for sale in one part of the country and which are subsequently resold in another part of the country. Article 92(II), paragraph 1, of LPPIP recognizes exhaustion of trademark rights in a national level, i.e., a trademark owner is not allowed to impose restrictions or prohibitions on the further sale of a trademarked product once the product has been “legitimately” introduced in the Mexican market. Paragraph two of this Article extends the territorial scope of the exhaustion of rights doctrine to cover to any country in the world. Accordingly, Mexican trademark rights are exhausted whenever a trademarked product has been exported, regardless of the country to which it has been sent. The worldwide scope of this doctrine far exceeds the scope of most other countries’ exhaustion of rights doctrines.

PATENT AND COPYRIGHT PROTECTION

In addition to Article 92 of the LPPIP, Mexico has other intellectual property laws that can be used to control parallel imports. For instance, Article 22(II) of the Law on Inventions and Trademarks of 1976 allows a Mexican patent owner to prevent the import of foreign goods covered by the Mexican patent.

This statute contains an exhaustion of rights provision, declaring that patent rights are exhausted after a patented product is introduced into the Mexican market by the patent holder or its licensee. The product can thereafter be resold without the permission of the patent holder. However, this provision applies only to products originally sold in Mexico. Accordingly, if a parallel import is covered by a Mexican patent, the product is not allowed to be imported into Mexico, unless permission is given by the holder of the Mexican patent.

A Mexican copyright holder may be in an even stronger position than a Mexican patent holder to stop parallel imports of products. The Mexican copyright law as

presently drafted does not expressly contain any exhaustion of rights provision. The law does not recognize a first sale doctrine or anything similar.

Nevertheless, it is probable that copyright owners are not exempt from the exhaustion of rights doctrine that has been applied to patent and trademark owners. It would be prudent to expect that once a copyrighted product (such as a book or audiotape) is sold in Mexico, the copyright holder cannot restrict any further resale of the product. In other words, copyright rights should be considered to be exhausted as soon as a book or audiotape is sold in the market.

This exhaustion of copyright rights, if it exists at all, probably applied only to sales originally made in Mexico by the Mexican copyright holder. To extend the exhaustion of rights doctrine internationally, a provision would probably have to be introduced into the Mexican copyright law expressly modifying the rights that the Mexican Constitution, statutes and judicial decisions have granted to Mexican copyright holders.