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IP owners may be awarded more than minimum damages based on '40% rule'

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- Under Article 221 *bis* of Industrial Property Law, damages awarded to claimant shall be no less than 40% of public sale price of infringing products
- Circuit Court recently reasoned that 40% rule seems to apply principle of punitive damages to Mexican legal system
- Therefore, courts can impose both compensatory damages for loss suffered and punitive damages based on 40% rule

A Circuit Court has recently observed that industrial property owners may be awarded actual damages plus 40% of the sale price of the infringing products as punitive damages.

Background

Article 221 *bis* of the [Mexican Industrial Property Law](#) provides that the damages awarded to the claimant shall be no less than 40% of the public sale price of the infringing products (the '40% rule').

The Mexican Supreme Court had previously ruled that, to be entitled to damages, in addition to demonstrating the infringement of an IP right beyond any doubt, claimants must also demonstrate the harm suffered and a causal nexus between the infringement and such harm.

Decision

Based on an analysis of punitive damages in the US legal system, the Circuit Court reasoned that the 40% rule seems to apply the principle of punitive damages to the Mexican legal framework. Therefore, the Circuit Court commented that judges can impose both compensatory damages for the loss suffered, provided that the requirements established by the Supreme Court are met, and the 40% rule as punitive damages.

Comment

At first sight, this may seem like a more favourable interpretation of the Industrial Property Law for claimants. Conversely, the text of the ruling is ambiguous, and the proposed interpretation of the law may mean that the courts have unlimited discretion to determine the amount of compensatory damages, further to imposing damages based on the 40% rule.

According to the Mexican legal system, this Circuit Court precedent is not binding and, thus, it is considered that the application of the 40% rule continues. This may reassure claimants that such minimum is guaranteed, as long as the above test is met. Nonetheless, extensive expertise is always advisable when claiming damages in Mexico, since navigating the rules and venues to claim damages derived from the violation of IP rights has been a problem in the country for many years.

In light of this decision and the recent approval of the US-Mexico-Canada Agreement, which provides minimum standards to claim damages, one may argue that the Industrial Property Law requires urgent amendments to provide better guidelines, including the definition, nature, origin and types of damages that can be claimed and recovered, as well as the methods for doing so. This is to avoid loose interpretations by the courts, which would require lengthy and strenuous civil litigation to be contested.

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