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Mexican Supreme Court Ruling Leaves Collective Societies Not Needing Standing or Infringement to Prevail in Copyright Claims

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The Mexican Supreme Court's decision on the interpretation of provisions in the Federal Copyright Act has given royalty collecting societies unprecedented authority by exempting them from the requirements to evidence standing or infringement in order to succeed in copyright claims. Amendments to the Act, which were challenged before the court on constitutional grounds, would also appear to be at odds with provisions of the North American Free Trade Agreement (NAFTA) of which Mexico is a signatory.

I. NAFTA Article 1705(3)

Chapter XVII of NAFTA has the same origins and background as the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement), and as such, their provisions are quite similar. This stems from the fact that during NAFTA negotiations, a TRIPS draft was issued by the General Agreement on Tariffs and Trade's Director-General, Arthur Dunkel, and

NAFTA negotiators decided to base Chapter XVII on that draft.¹ Despite this, there are however, still several differences between the two agreements. One important difference is that NAFTA Article 1705(3)(a) requires member states to provide for the free transfer of economic rights:

“[E]ach Party shall provide that for copyright and related rights: (a) any person acquiring or holding economic rights may freely and separately transfer such rights by contract for purposes of their exploitation and enjoyment by the transferee”.²

The literal and prevailing interpretation of this provision is that it establishes the right to freely dispose of or transfer copyrights.³ However, this free transferability of rights is contrary to the inalienable character of author's rights in the civil law tradition. This principle imposes different kinds of limitations on the free transferability of author's rights, depending on the legal system.⁴ Some legal systems may include a written requirement for all contracts involving any copyright transfer; other legal systems establish that certain rights cannot be transferred, so any contract or clause trans-

ferring such rights would be void. Limitations may also restrict the term of the transfer to a certain period of time, or even forbid any transfer at all.⁵

The TRIPS Agreement does not have any provision establishing free transferability of economic rights similar to NAFTA Article 1705(3). This is because the majority of the then negotiating countries, currently member states of the World Trade Organization (WTO), belong to civil law tradition. Therefore, most of them have limitations on the free transferability on their copyright statutes and naturally oppose any provision establishing free transferability of rights.⁶ If those countries had accepted a provision like NAFTA Article 1705(3) they would have acquired an international obligation to eliminate any transfer restriction from their national statutes. However, civil law countries had stronger negotiating power during the TRIPS negotiations than Mexico during NAFTA negotiations. Mexico was faced with two hegemonic common law countries and it has been suggested that Mexico had accepted those intellectual property provisions in order to avail itself of the economic advantages of the agreement.⁷ Nevertheless, NAFTA Article 1705(3) has been mainly ignored in the Mexican legal system. It was ignored by Congress, and it was also ignored by the Supreme Court. It seems that Mexico gained in the national arena what was lost during international negotiations.

II. Mexican Copyright Act Amendments

In July 2003, the Mexican Congress passed several amendments and additions to the Federal Copyright Act. Those amendments gave non-transferable rights in favor of authors, performers and phonogram producers, consisting of an “equitable remuneration”, for any public performance or transmission of their protected works or interpretations.⁸ This unwaivable remuneration right is required when a public performance or transmission is made with the purpose of direct or indirect profit.

In order to understand this remuneration right, it must first be noted that Article 7 of the Rome Convention establishes very limited rights for performers. Under this provision, performers only possess rights over their un-fixed performances. Once they authorize the fixation of their performances (onto a recorded medium), then they have in essence relinquished their conventional rights. Therefore, performers’ rights are limited to preventing the transmission, public communication, and fixation of their live performances. They also have the right to prevent the reproduction of such performances if they have been fixed without authorization.

This limited set of rights is the result of an apparent tension between performers and the authors of the music and lyrics. When a performer interprets a song composed by an author, the author retains rights over the lyrics and musical compositions, including reproduction, public performance, and transmission rights.⁹ That being the case, both performer and author in this situation possess rights over the same thing. It has been argued that there would be a risk for the author of the

song (lyrics or music) if the performer could oppose the reproduction, transmission, or publication of their performance of it. This is however, an unsound argument because it would be very unlikely for performers to act against their own interests. Nevertheless, the result is the very limited set of rights for performers under the Rome Convention.

However, Article 12 of the Rome Convention establishes some consolation for the limited rights awarded by the Convention to performers. Also available to producers of phonograms who *do* have the right to prohibit reproduction of their phonograms, Article 12 states:

“If a phonogram published for commercial purposes, or a reproduction of such phonogram, is used directly for broadcasting or for any communication to the public, a single equitable remuneration shall be paid by the user to the performers, or to the producers of the phonograms, or to both. . . .”¹⁰

The legislature of each country determines whether this equitable remuneration is granted to performers, to producers of phonograms, or both. In the case of Mexico, the amendment to the Copyright Act gave this right to both parties. At this point, it is important to consider that Article 12 of the Rome Convention does not provide that the equitable remuneration should be “unwaivable” as the Mexican amendment does.

This is not yet the end of the story. As mentioned, the Mexican amendment also confers such unwaivable “equitable remuneration” to authors in general for any public performance or transmission of their protected works made with purpose of direct or indirect profit.¹¹ Yet, there would appear to be no reason to give this right to authors in general because it overlaps with exclusive statutory economic rights,¹² specifically, public communication or public performance and transmission. As with many other legal systems belonging to the civil law tradition, the Mexican system divides the statutory copyright into authors’ rights and neighboring rights. Performers and producers of phonograms have neighboring rights, so their exclusive economic rights are not included in Article 27, which pertains to economic rights for authors in general. Those rights are contained in a special chapter of the statute, and are as limited as the Rome Convention provides. The reason for this is that Mexico has not yet implemented the WIPO Performances and Phonograms Treaty.

So why have Mexican legislators given this equitable remuneration right to authors? Legislative history, it is submitted, is very illustrative on this point:

“[I]n order to avoid mistakes in statutory interpretation, in order not to be thought that the statute gives more protection to performers than the authors, it has been decided to give the same right to authors. . . not to do that, could lead to the absurd thinking that only performers have this right and authors have not.”¹³

The problem here is that Congress did not take into consideration that the statute gives those rights to authors in Article 27, as exclusive economic rights. There-

fore, the result was probably contrary to the expected one because more rights were given to authors than to performers.

III. First Struggles

If authors have this unwaivable right to remuneration, this could result in a serious problem for many enterprises, such as movie theaters, for example. According to Article 97 of the Copyright Act, the following persons are considered authors of a cinematographic work:

- the movie director;
- the script writer;
- the score/soundtrack composer;
- the director of photography or cinematographer; and
- the author of animations, if any.

The statute provides that the producer has exclusive economic rights over the whole production. However, the unwaivable remuneration rights described above enable each “author” of the movie to pursue them independently from the movie’s exclusive economic rights. As a consequence, any movie theater that has paid and acquired a license to exhibit a given movie may face claims from authors over their independent, unwaivable remuneration right.

As a result, several movie theaters filed an action at the Federal District Court on September 3, 2003 to challenge the constitutionality of the amendments. One of their arguments, possibly the most important, seemed directed to the fact that non-renounceable rights were contrary to NAFTA Article 1705(3), and therefore unconstitutional. At that time, the Mexican supremacy clause made unconstitutional any federal or state statutory provision contrary to an international agreement. Presently, this is still the case, but only if the international agreement is related to human rights.

However, the argument focused only on the unwaivable remuneration right given to authors by Article 26 *bis* of the amendment, and did not cover the unwaivable rights given to performers and to phonogram producers by Articles 117 *bis* and 131 *bis*. Furthermore, the plaintiffs argued that amendments contradict not only NAFTA Article 1705(3), but also Article 6 *bis* of the Berne Convention on moral rights, and Article XI of the no longer in force Inter-American Convention on the Rights of the Author in Literary, Scientific and Artistic Works.¹⁴

Eventually, the case reached the Supreme Court, which upheld in a decision on June 10, 2005, the constitutionality of the amendments. The Supreme Court held that Article 6 *bis* of the Berne Convention provides for the free transferability of rights, and that Article 14 *ter* establishes the inalienable right to an equitable remuneration.¹⁵ Both conclusions reflected a serious misreading of the Berne Convention, because Article 6 *bis* provides for moral rights and Article 14 *ter* establishes the right

called *droit de suite*, in favor of authors regarding any resale of their original works of art, or manuscripts. It is a right for the resale of the original material object. The Supreme Court did not discuss NAFTA Article 1705(3) but merely quoted it, without taking into consideration that the Inter-American Convention on the Rights of the Author in Literary, Scientific and Artistic Works was no longer in force.

IV. Amparo Directo 11/2010

One collective society, incorporated under the rules of the Copyright Act,¹⁶ then began a mediation process against several companies owning movie theaters.¹⁷ This process, provided in the Copyright Act, is normally taken by INDAUTOR, the Mexican Copyright Office. The collective society was acting on behalf of several composers of songs contained in the movies exhibited by the movie theaters. Given that movie theaters usually pay a license fee in advance to the producer or distributor of a movie to exhibit it, the problem arose as to the potential claims to such fees by all “authors” of the movie who were given unwaivable rights by the statute. Movie theaters had anticipated this problem and filed the abovementioned action which they had lost.

The mediation succeeded and both sides reached an agreement in which movie theaters agreed to pay the collective society an initial sum as well as periodical payments. Those payments ceased in 2003 and the collective society sued for copyright infringement in a state trial court on March 23, 2006. The court ruled in favor of the society and movie theaters appealed.

The Court of Appeals reversed the ruling in its March 25, 2008 decision, holding that the collective society did not have standing to sue, and had not proven the elements of its cause of action, including ownership and infringement.¹⁸ The appeal court also ruled that its decision did not preclude the plaintiff from filing the action again because it did not consider the judgment as *res judicata*.

Each party filed a writ of *Amparo*, which could be simply considered as the next step in order to overcome the judgment rendered by the Court of Appeals. The consolidated *Amparo* was heard by the Tenth Court of Appeals for the First Circuit, which rendered a judgment vacating the Court of Appeals judgment, and ordered the court to issue a new judgment considering all proofs in the record.

The Court of Appeals rendered a new judgment, but it reached the same conclusion as before, the one establishing that the collective society did not have standing to sue. The collective society filed for an *Amparo* again and the Tenth Court of Appeals for the First Circuit held that it did have standing to sue. On remand, the Court of Appeals on August 12, 2009 ordered the movie theaters to pay the collective society statutory damages.

The movie theaters then filed an *Amparo* and managed to have the case heard by the Mexican Supreme Court. They argued that Articles 194 and 200 of the Copyright

Act as interpreted by courts below were unconstitutional and against the due process clause contained in Articles 14 and 16 of the Mexican Constitution. The argument was based on the fact that the collective society did not name the authors it was representing and did not show any representation agreement, and that in siding against the movie theaters, the Court of Appeals assumed that the collective society was representing the whole universe of composers, Mexican and foreign. Therefore, the interpretation that courts below gave to Article 200 of the Copyright Act was not only exempting collective societies from showing any representation agreement, but also exempting them from proving infringement. They argued that this interpretation empowers collective societies to sue everyone without even proving infringement.

The Supreme Court however in a decision on December 1, 2010, rejected the movie theaters' arguments and upheld the lower courts' interpretation, ruling in favor of the collective society. It held that:

"The lack of a special standing regime for legitimacy of the collective societies would imply that each author would have to clarify in specific way, from its initial written complaint, the musical pieces that each defendant user in the world has used, and prove their use, including circumstances of mode, time and place, considering the difficulty and cost of identifying to all users of musical pieces and identifying to all the exhibitors of the cinematographic works containing musical pieces composed by the author. . . would be excessive, if one takes into account that the plaintiff should be in its initial written complaint who and how many times the defendant projected films with musical works administered by the society of collective management".¹⁹

It is submitted that if the legislator had indeed wished to create such a spectacular regime, for implied standing and presumption of infringement, it would have put it expressly in the statute. These kind of assumptions cannot be inferred or created by judges.

Comparative law offers some guidance to this sort of problem. For instance in *Feist v. Rural*, the U.S. Supreme Court held that in a copyright infringing action, plaintiff must prove:

"(1) ownership of a valid copyright, and (2) copying of constituent elements of the work that are original".²⁰

Yet these are precisely the components that the Mexican Supreme Court had held a plaintiff does not need to prove if it happens to be a collective society. The presumption is unconstitutional and against basic due process principles of law in any constitutional regime, not to mention against the concept of equality of rights, because collective societies would appear to have unjustified, exceptional procedural rights which exempt them from having to show standing or prove infringement.

In the European Union also, the trend is in fact moving in the opposite direction. Problems with several collective societies on matters such as excessive fees, unfair distribution of royalties, and lack of transparency, have led

the European Parliament and the European Council to issue the EU Directive on Collective Management of Copyright and Related Rights and Multi-territorial Licensing of Rights in Musical Works for Online Use in the Internal Market,²¹ to exert more control over them, it seems.

Therefore, at an international level, there would appear to be agreement that collective societies need to prove standing and infringement in copyright claims. Yet the Mexican legal system has an exceptional procedural regime and not enough controls on the statute over collective societies.

The above highlights two problems with the state of Mexican copyrights. The first lies in the unwaivable "equitable remuneration" rights granted to performers, to phonogram producers and extended even to authors. The unwaivable character of these rights appears contrary to NAFTA Article 1705(3). The second is in the significant procedural rights given by the Mexican Supreme Court to collective societies. Perhaps a better understanding of international intellectual property agreements will be the key to resolving these issues.

Notes

¹ Woodward, Martin D.H., "The TRIPs and NAFTA's Chapter 17: How Will Trade-Related Multilateral Agreements Affect International Copyright?" *Texas International Law Journal*, vol. 31, at 273-74 (1996). In civil law tradition countries copyrights are referred to as author's rights, but the term "copyrights" will be used in the following discussion.

² NAFTA, Article 1705(3)(a).

³ Golsby, Sharan L., "Protection of Intellectual Property Rights Under Nafta," *NAFTA: Law and Business Review of the Americas*, vol. 5, at 19 (1998). See also, Woodward, Martin D.H., above, at 280.

⁴ Lypszyc, Delia, *Copyright and Neighboring Rights*, at 278 (1999).

⁵ Id at 277.

⁶ Reindl, Andreas P., "Choosing Law in Cyberspace: Copyright Conflicts on Global Networks," *Michigan Journal of International Law*, vol. 19, at 866-70 (1998). See also Geller, Paul E. and Nimmer, Melville B., *International Copyright Law and Practice* at 246-50 (2003).

⁷ Ryan, Michael P., *Knowledge Diplomacy: Global Competition and the Politics of Intellectual Property*, at 3 (1998).

⁸ Mexican Copyright Act (as amended), Articles 26 *bis*, 117 *bis*, and 131 *bis*.

⁹ Lypszyc, Delia, above, note 4, at 385.

¹⁰ Rome Convention, Article 12.

¹¹ Copyright Act, Article 26 *bis*.

¹² Id, Article 27.

¹³ Mexican Senate, *Report on the Amendments to the Copyright Act*.

¹⁴ Yet by adding inapplicable international provisions, the plaintiffs diluted a persuasive argument based on NAFTA Article 1705(3).

¹⁵ Mexican Supreme Court, Second Chamber, Amparo en Revisión 105/2005, *Cinemex Toluca II, S.A. de C.V. et al.*, June 10, 2005, at 178.

¹⁶ According to the document *Suprema Corte de Justicia de la Nación, "Asuntos que se verán en la Sesión del Día 1 de Diciembre de 2010 y Siguientes,"* available at https://www.scjn.gob.mx/Primera_Sala/Documents/ListaParaSesion/2010/Diciembre/lpsIsala20101201b2.1.pdf, the name of the collective society was "Sociedad de Autores y Compositores de Música, Sociedad de Gestión Colectiva de Interés Público". This information was obtained in such indirect way because the Mexican Supreme Court usually suppresses the names of the parties from the public versions of its judgments.

¹⁷ Mexican Supreme Court, First Chamber, Amparo Directo 11/2010, *Sociedad de Gestión Colectiva de Interés Público*, December 1, 2010, at 8.

¹⁸ Id at 17.

¹⁹ Id at 86–87.

²⁰ *Feist Publications, Inc. v. Rural Telephone Service Co., Inc.*, 499 US 340, at 361 (1991).

²¹ Band, Jonathan and Butler, Brandon, “Some Cautionary Tales About Collective Licensing,” *Michigan State University Journal of International Law*, vol. 21, at 692–727 (2013).