

Business View of Mexico Laws

New laws increase dangers, minimize inducements and opportunities to point foreign companies must direct interests elsewhere

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Mexico, with vast natural resources, a numerous and expanding population, land communications with two major continents, and sea communications on two oceans for convenient access to world markets, has for some years been in a position to grow into a substantial industrial state.

My own interest in and feeling of friendship for Mexico commenced in 1952 when I had my first negotiation with a Mexican group. I became friends with a conscientious young Mexican lawyer representing a Mexican client, and I have watched the successful career of this patriotic citizen through Mexican politics into an elected position in the national legislature. I have other Mexican friends, including one for whom I have the greatest respect, who was directly involved in the early establishment and successful operation of the National Registry of Technical Agreements.

Last year I spent a month in Mexico City consulting to certain agencies of the Mexican government on transfer of technology. I had an opportunity to meet and work with a number of capable and dedicated Mexican technocrats involved in the management of patents, trademarks and technology. I have the sincerest respect and great admiration for the patriotism and dedication of these individuals.

I recite these personal experiences to make it clear that, even though on a number of substantial points, I will reflect disagreement with certain aspects of the Mexican law and regulation of patents, trademarks, and technology, my basic desire is to be constructive in marshaling comments of Americans to help our Mexican friends to encourage foreign technological contributions which will support Mexico's economic development.

My topic—"The 1976 Law of Inventions and Trademarks"—has become a controversial and much debated subject. This has occurred because this law and the companion investment and technology laws, although designed to contribute to the flow of technol-

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ogy into Mexico, clearly have raised barriers to that flow. Because of these laws companies, large and small, in the United States have changed their attitude. Now, through necessity and not choice, they relegate Mexico to a last-tier country for consideration as a country into which technology can be safely transferred.

Canvass

This statement is not solely my opinion. It is my analysis based on canvassing the experience in the last year of 86 lawyers responsible for advising clients on the use of patents, trademarks and technology in international business.

The withdrawal of major companies from seriously considering Mexico as a country into which technology should be introduced is not the most serious result of the Mexican laws. Even more serious is the loss of interest in Mexico as a market into which small- and medium-size companies can introduce technology. These companies are sources of practical technology of the kind that is much needed and could be easily assimilated by Mexico. More importantly, these small- and medium-size companies usually are constituted by bright, energetic men with fresh approaches to international business, eager to meet and work with foreign partners as licensees, licensors or joint-venture partners.

But, why are American companies turning away from technological introduction into Mexico?

To answer this question we must recognize the recent changes in the law of Mexico relating to patents, trademarks, and technology. Recent intense interest in technology in Mexico has resulted in:

1. The 1976 Law of Inventions and Trademarks.
2. The 1973 Law on Foreign Investment.
3. The 1972 Law on Technology Transfer.
4. Laws establishing CONACYT (Consejo Nacional de Ciencia y Tecnologia) to coordinate and advise on technology at the highest level nationally.

The provisions of the 1976 Law of Inventions and Trademarks together with the provisions of the 1972 Transfer of Technology Law have made technology introduction into Mexico a very uncertain matter from a business point of view.

The new Law of 1976 has made some important changes in the law respecting patents by providing that:

Article 10

1. No patents can be obtained on vegetable varieties, races of animals, alloys, chemical products, chemical-pharmaceutical products, food, drink, fertilizer, insect-

ticides, herbicides, fungicides, nuclear energy, environmental equipment, etc.

2. Only Certificates of Invention may be obtained for processes for making chemical-pharmaceutical products, food, drink, fertilizer, insecticides, herbicides and fungicides.

3. The term of a patent has been reduced from 15 to 10 years. The Inventors Certificate has a 10-year term. The patent must be worked in three years or compulsory licenses may be issued. Proprietary know-how must be provided under a compulsory license or to a user under an Inventors Certificate.

4. Patents may be expropriated by the Government and licenses issued to others for reason of public interest. The original patent owner must furnish know-how to the public interest licensee.

Clearly the owner of patentable new products or of proprietary technology in other developed or developing countries must sacrifice substantial rights and run substantial risk should he introduce the products or technology into Mexico.

As with patentable subject matter, the provisions of the 1976 Law relating to trademarks is very discouraging to the owner of a marketable product or of technology wishing to introduce such into Mexico under a trademark or a service mark.

Some of the most important and controversial aspects of the trademark portion of the 1976 Law are:

Article 112—Term of Protection and Renewal of Trademarks

156 The term of protection of trademark registration in the new law has been reduced from ten to five years. This term may be renewed indefinitely for five-year periods. Effective use of the registered trademark must be made within a period of three years from the date of registration. If use is not proven to the satisfaction of the Ministry of Industry and Commerce the registration will be automatically canceled.

Article 116—Use of Trademark Registrations (Actual Use)

Products or services manufactured or rendered by a single owner which are substantially alike, that is, differ only by their incidental characteristics must be sold under the same trademark or service mark. This is to prevent goods or services sold or rendered by the same mark owner at different prices and to assure that the public is not confused in believing that different products or services are being sold merely due to the fact that different trade or service marks are used.

Article 125—Mandatory or Prohibited Use

In the public interest the Ministry of Industry and Commerce either may make mandatory the use and registration of a trademark for goods or services, or, after hearings, prohibit the use of a trademark whether registered or not, on certain products or in connection with certain services. This enables the Mexican government to prohibit the use of certain trademarks and to obligate a manufacturer to use generic labeling. Apparently this is directed toward certain products of the food and pharmaceutical industries.

Article 127—Use of Combined Trademarks

One of the most controversial provisions of the new

Trademark Law is the provision of Article 127 establishing that all foreign-owned trademarks which are destined to cover goods manufactured in Mexico under license or not shall be used in combination with a trademark originally registered in Mexico. Both trademarks must be displayed with equal prominence.

This provision has caused the greatest concern and confusion among foreign companies interested in business in Mexico. The legal debate has been endless. Recognizing the inherent difficulties with this provision, enforcement has been postponed for one year by the Mexican Government.

The reasons for the linking of marks under Article 127 are given by the Mexican Government as follows:

1. To avoid long-term commitments for the payments of royalties and thus adverse affect upon balance of payments.

2. To avoid excessive advertising costs, unnecessary investment in manufacturing machinery due to quality control, and increasing royalty payments under long-term license.

3. To avoid restrictive clauses whereby the licensee is obligated to purchase certain parts or components from the licensor abroad.

4. To protect the international markets for Mexican exporters since in most cases the foreign trademark is also licensed to others in other countries, thus preventing the Mexican licensee from exporting to those markets.

5. To protect the Mexican licensee when the foreign trademark license agreement expires.

6. To make Mexico's export products competitive in the international market.

Article 132—Compulsory Licensing of Trademarks

For reasons of public interest the government can force the grant of a compulsory license for the use of registered trademarks. This unusual action will be taken after hearings at which the interested parties may participate. Royalties will be fixed by the Ministry of Industry and Commerce.

Registration of Licenses

In order to register trademark license agreements it is necessary to prove that such agreements were previously registered with the National Registry of Transfer of Technology.

My intention today is not to rehash the pros and cons of the various provisions of the 1976 Law on Inventions and Trademarks — these have been adequately reviewed in reported publications. Further prominent professional associations in the United States have debated the issues and recorded positions in opposition to a number of provisions of the law.

Today I want to examine the effect of the 1976 Law to determine if the provisions of the law truly are attaining technology transfer into Mexico to achieve the stated objective.

But first, what is the national objective sought to be attained by Mexico through these laws and particularly of the 1976 Invention and Trademark Law? To determine the objective sought by the 1976 law we can turn to the statements of one very closely associated with its application and enforcement.

Jaime Alvarez Soberanis, General Director, National Register of Transfer of Technology of Mexico,

stated:

"The new law (1976 PAT Law) constitutes an effort to make the (patent) systems fulfill its objectives of constituting an incentive for . . . , domestic inventors and of promoting the transfer of foreign technology into our country, thus promoting the national development . . ."

This objective certainly is valid. We know that this national objective has been attained in a great many countries by the controlled use of the patent-trademark system. The sensitive legal mechanism to control patents and trademarks in order to attain this objective has evolved over a hundred years from thought and study of many dedicated government officials, lawyers and business men in many countries. The evolved legal mechanism is reflected in the antitrust laws as well as in the basic patent and trademark laws of the United States, Japan, the Common Market and many other countries.

However, Mr. Soberanis goes on to say:

"Therefore, the new law . . . should be conceived as a change of philosophy that tends to conceive the classical institution of the system (patents and trademarks) with a function of social service for the community."

I can find no new philosophy here. The "classical institutions" (patents and trademarks) over history have encouraged individuals to disclose technical information and to develop, manufacture and distribute products of quality to improve the community. Historically, the scientific community has been benefited by the technical disclosure of the patents and the entire community has benefited from the products produced and employment generated by the manufacture of products. These benefits have contributed to social services in every country having a patent system. To present the new Mexican law as a new social instrument is to blur the clear picture of patent-trademark service to society of many years standing.

Repressive Provisions

Repressive provisions in the 1976 Law militate against the use of the Mexican patent-trademark system by foreign businessmen. As a consequence the classic institutions (patents and trademarks) lose effectiveness as an instrument of progress; social, technical or economic.

Again, Mr. Soberanis says:

"The change introduced by the new law corresponds to an international tendency of seeking solutions for the great problems faced by the countries of the Third World for achieving their development."

Herein lies the problem! Mexico, in drafting its 1976 Invention and Trademark Law, has become preoccupied with innovations evolving from so-called "Third-World thinking" and has overlooked the long history and evolution of the patent-trademark systems of the world. The reasons foreign companies forego introducing technology into Mexico is not because of the stated objective of the law, but because of certain radical and untried provisions introduced in the name of a "new economic order."

Mr. Soberanis also implies that a Third World group has discovered a bright new way of solving great problems of economic development. Unquestionably, new and decisive approaches are being taken both in developed countries and developing countries to solve problems of fairness in use of patents and trademarks

in fostering economic growth. The Third World is not spectacularly solving problems of economic growth by application of innovative and unproven approaches to the classic institution of patents and trademarks. Approaches that are being successfully applied are the historically tried and traditionally sound institutions of patents and trademarks which have evolved so successfully over history to what they are today — institutions which have helped build the so-called developed countries from their early nondeveloped state.

In summary, we must agree with the objective of the 1976 law to "promote the transfer of technology into Mexico, thus promoting national development." However, many businessmen, lawyers and government officials, including some in Mexico, consider that many of the provisions of the law defeat its purpose.

Wrong Classification?

Turning to another important point we find it difficult to consider Mexico a typical Third World country. In fact, we cannot understand why for many purposes Mexico does not fall into the classification of a "semi-developed country." Mexico has been a free and independent nation for many years. With vast natural resources, a growth rate that has averaged 6.4% in the period 1940 to 1975, foreign currency reserves of almost three billion dollars, and over 40 years of uninterrupted social stability, Mexico is much nearer to being a developed country than to being a Third World country. Attempts to demote its standing in the world by assigning it to those countries encompassed by this generalized definition are not fair to the many brave and capable Mexicans who have achieved growth and stability for their country for which Mexico is so justly proud. As long ago as 1930 Mexico established its oil industry by expropriation. Legislation authorizing expropriation with proper remuneration has been on the books of Mexico for quite some years — since 1930.

In short, Mexico's friends cannot agree that this dynamic nation of 60,000,000 people with a long history of freedom and social and political stability, financial convertibility and the legal structure to control the destiny of its substantial resources, may truly be categorized as an emerging or Third World country.

Mexico should be, or shortly will be (15 years), on the threshold of being a developed country. And why not? Its resources, its location, its climate are all there and the pattern of development which Mexico had started to follow had been clearly laid out by the economic evolution of such countries as Japan.

Japan is not, as Mexico, endowed with vast natural resources, vast land areas for food production, land communications to two continental markets, seaports on two oceans with easy sea access to foreign markets. Japan in the 32 years since the conclusion of World War II has overcome its resource and geographic handicaps to develop into a ranking full world industrial power.

Japan Parallels

Japan's successful growth was fostered by establishing, what Mexico has — a democratic tradition with a respect for freedom, social stability, an expanding domestic market and establishing raw material

sources. Above all, Japan, recognizing the obvious, undertook a vast program to import technology for its own or joint investment.

The planned influx of foreign technology in the early stages of the program was supported and, to a large extent, controlled by foreign investment laws and regulations respecting technology purchase and license agreements — administered by the Bank of Japan and the Ministry of International Trade and Industry (MITI). The classic institutions of patents and trademarks did not need dramatic or radical changes. These institutions were revitalized along then developed country standards. Controls were exercised by MITI through foreign exchange, foreign investment control laws and exerting a reasonable influence on the selection and importation of technology.

Japan's free-enterprise system accepted imported technology as business opportunity for investment. Government controls and restrictions on the importation and use of new technology were relaxed until today they are not a substantial factor in doing business in Japan.

With the background of the Japanese success story for reference, Americans have applauded Mexico's dedication to expanding its industrial and technology base through the introduction of foreign technology as well as technology developed within. In such expansion we acknowledge Mexico's need for planning and controls. However, we are dismayed and discouraged by the array of inconsistent and objective-defeating regulations put into effect in the name of "an international tendency of seeking solutions for the great problems faced by Third World countries."

Neither can Mexico's friends believe that vast economic domination from abroad has been a significant factor in holding back Mexico's development. Foreign technology has been introduced into Mexico in ever increasing amounts for many years — foreign-owned Mexican patents have expired leaving large amounts of free technology in the public domain available for Mexican economic development — even larger pools of free technology lie available in the literature of expired patents of other countries of the world. Mexican universities have carried on research for years. Mexican technical workers are free to move from company to company or to establish their own businesses. Mexico has developed some of the largest universities of the world — from which great numbers of technical and business students have graduated. Its unemployment poses a vast resource of manpower.

Foreign Investment

Foreign investment in Mexico has been stated to be roughly 5% of total Mexican investment. About 75% is U.S. investment (\$3.2 billion). It is difficult to see how foreign investment of 5% of the total investment can throttle technical and economic growth in view of Mexico's geographic location, manpower pool of educated people, natural resources and long standing control and management of segment of its economy.

Certainly an outflow of \$25.5 million related to patent and trademark licensing fees cannot be sufficient to justify not only control of transfer of technology but disruptive provisions of the law which discourage such flow.

One would think that the Mexican law would be written to encourage foreign technology introduction to provide business opportunities for the 95% Mexican share of new investment entering the financial market each year.

Ideally, the 1976 Invention and Trademark Law would be designed to provide means for protecting rights involved with inventions and technology transferred into Mexico and simplifying their use. The 1973 Law on Foreign Investment and the 1972 Technology Transfer Law also should be designed to channel that technology into Mexican enterprises on a fair and equitable basis.

The objective of the 1976 Patent Trademark Law, according to Mr. Soberanis, has the

"objective of constituting an incentive for domestic inventors of promoting the transfer of foreign technology into our country, thus promoting foreign development."

Any provision of that law which discourages the transfer of foreign technology into Mexico is inconsistent with the stated objective.

Why are Technology Owners Discouraged?

Without going into discussions of all possible negative provisions of the various laws, i.e. 1976 Law Inventions and Trademarks, 1972 Law on Technology Transfer and the 1973 Investment Law, one can state in one paragraph why foreign companies list Mexico near the end of the list of countries into which technology will be introduced.

For example: A foreign technology owner is asked to enter into a contract of not over 10 years at a royalty not over 3% under which he would sell outright all his defined technology and improvements. He faces barriers of time-consuming delays in furnishing his Mexican licensee with critical machinery of necessary components. If he owns or applies for a Mexican patent, he could have it expropriated. If he applies for an Inventors Certificate he would be forced to license third-party strangers and supply such licenses with related proprietary know-how. Should he be fortunate enough to have a well respected and valuable foreign trademark, he could have it expropriated, have it banned or have it subjected to a compulsory license. Certainly he must go through the expensive, laborious and image-diluting exercise of linking it with a Mexican mark.

I asked for comments from company executives and independent lawyers having patent and trademark clients ranging from individuals through small- and medium-sized to large companies. The comments of some of these are:

A Midwest lawyer:

"I can advise you as follows:

"1. A domestic pharmaceutical company has ceased filing in Mexico, even though it does have a local operation.

"2. A foreign pharmaceutical company has gone along with the act for the time being but is reconsidering its position — it is doubted that they will continue to file in Mexico.

"3. A domestic client in the machine/apparatus business has previously had a license in Mexico — adequate compensation is not available and a continuation of the license is not anticipated — our instructions

have been to cease filing on new inventions in Mexico.

"As far as advice from counsel to their inventor clients, I tell them the facts — whatever you get (patents) you cannot get any kind of decent remuneration from Mexico."

Two Instances

And from a West Coast law firm's senior partner:

"We have had two instances wherein clients have specifically decided not to transfer technology into Mexico because of the new law.

"The difficulty of registering the agreements with the Mexican Government, including the limitation of certain clauses, together with low royalties, has definitely discouraged our clients."

Another Los Angeles lawyer:

"When a small client who does not have existing close ties in Mexico, and very few do, is told of the general provisions of the law, he does not wish either to file a patent application or to embark on licensing activities in Mexico.

"The net result is that smaller businesses and entrepreneurs simply do not want to get involved in a situation made more difficult than it previously was."

An Orange County lawyer:

"The royalty approved by the appropriate agency in Mexico has in my experience been unrealistically low. Indeed in one case which came across my desk within the last several days, the reaction of the president of the company involved was in effect that we should forget about Mexico. . . ."

Reactions of Major Companies

The reaction of major companies to the new Mexican laws on patents, trademarks and technology transfer is predictable. Some presently in business in Mexico will continue to add technology and products to protect existing investment and operations. Others are cutting back — substantially.

The health care industry in particular is discouraged. Limited to Certificates of Invention for protection, and thereby practically giving away not only the product the subject of the Certificate but related know-how, health-care industry companies are standing back from new activities in Mexico.

The situation is clearly expressed by counsel to one major company in that field:

"Focusing on the 1976 Law of Inventions and Trademarks, the consensus in the health-care industry appears to be that it had definitely discouraged some high-technology investments in Mexico and at least two companies have decided to invest elsewhere instead. Patent activity has dwindled to a minimum."

And again a top executive of a pharmaceutical company:

"I will say, though, that we are very skeptical of the value of filing patent (certificate) applications in Mexico and I know that many similar companies have stopped filing there. Theoretically, and presumably in some situations in actual practice, this has a depressing effect on the flow of information into Mexico and on the development of local industry."

The requirements of the 1976 Law respecting linking of foreign origin marks with Mexican owned marks has been particularly burdensome to companies now

operating in Mexico. One large consumer products company with many trademarks in Mexico found that its house mark needed to be linked at great expense and some damage to the appearance of its packaging. A statement of its counsel summarizes the feeling of many companies with present operations in Mexico:

"Frankly speaking, at the time this law was enacted and considering also the recent Foreign Investment Law, if we had not already entered the Mexican market through substantial investment in that country, needless to say, we would have thought twice before entering Mexico as a new market. Moreover, I am aware that other companies with little or no substantial investments in Mexico have considered 'closing down shop.'"

Typical Experience

We could go on and on. However, the experience of one large industrial products manufacturer is typical. A senior executive officer advises that its company no longer is willing to use its trademark with licensee operations in Mexico because of the linking requirement, their inability to control quality by the importation of critical manufacturing equipment and key components. To set up the manufacture of some components in Mexico rather than import them more cheaply from the United States has made the operations of their Mexican licensee more expensive and with a lower quality product.

The experience of this company could well sum up the results of my canvass of counsel and executives of U.S. companies. The senior executive of the industrial products company states:

"From the standpoint of transference of technology to a Mexican company, because of the laws permitting utilization of that technology in shipments all over the world, we are not inclined to share the basic and certainly the most important technology with people with whom we deal. We would much rather give a limited nonexclusive license, demand our usual minimums and earned royalties, and let the venturer or licensee sink or swim knowing that he will not be harassing us in the U.S. with products bearing our trademark or of a quality that could be achieved were our technology to be made fully available.

"Perhaps I present a very dim attitude and viewpoint, but we feel from our experiences of the last several years in Mexico that their nationalism has overshadowed their desire to truly make strides as an important base for improving the Mexican economy.

"It is interesting to note that we have made efforts in Mexico for the last 20 years and have really made little inroad in establishing a successful program, whereas in 17 other countries of the world in the same period we have increased the total sales of our company by 20%. These kinds of statistics should tell the Mexican authorities something about the strange and difficult barriers which they have built with nothing but a view of nationalism in their minds."

Summary

Where does all this leave us? Certainly U.S. companies and the individuals managing them and advising them see little or no business opportunity in Mexico to

attract them. Those of us with strong feelings of affection for Mexico and a strong interest in seeing her prosper are disappointed because we know that it could be otherwise.

Any country, such as Mexico, having the stated objective of "promoting the transfer of foreign technology into our country thus promoting national development" must understand how decisions are arrived at by private companies to export technology and products. As new products and/or technology passes from research into the development stage a U.S. patent probably is filed by the company. Within one year the decision must be made to file foreign patent applications. To decide in what countries to file applications the responsible executives will meet with patent counsel to make the decision. Obviously only the largest companies can afford to file in almost every significant country. However, good management does not permit even the largest companies to file in countries other than those which business opportunities exist.

Individuals and small- and medium-sized companies with more limited funds for filing patent applications must be very selective in filing. Filings must be made where there is a present company operation or where an opportunity exists for a profitable business entry.

In making a foreign filing decision — deciding in which country to file — quite often a list is drawn up roughly as follows:

North American Market: Canada, United States and Mexico

Common Market: Country List

Scandinavia: Country List

Other European Countries: Country List

Pacific Basin: Japan, Australia and New Zealand

Middle East: Country List

South America: Country List

Other Countries: Country List

One can see there are a large number of countries in which expensive patent applications could be filed. Clearly, the decision in which countries to file must take into account where licenses can be granted, investment made, and reasonable income generated — in other words, in which countries are reasonable busi-

ness opportunities available.

Regretably, what industry is finding in Mexico is that there is practically no reasonable business opportunity, there is no inducement, and there are many dangers not only in filing patent applications but in making investments and transferring technology into the country.

Because there are many countries other than Mexico with greater inducements and much fewer, if any, dangers, foreign companies must direct their technical resources to those countries. Mexico, by its own action, has dropped far down the list of countries into which it is desirable or safe to transfer technology.

Patents, trademarks and related technology are the unique and valuable private property of companies whose executives are responsible to stockholders for the proper management of such property. At the present time no law of the United States or of a foreign country can force the transfer of technology into countries with undesirable business climates. Under the proper circumstances Mexico could be an ideal country into which U.S. companies would want to transfer technology. However, such technology transfer must be induced; it cannot be forced. Provisions of the 1976 Mexican Patent Trademark Law and related laws do not induce the inward flow of technology. They discourage it.

Such laws cannot help Mexico attain its growth objectives.

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