Comments on Mexico's New Law

Mexican Association of Industrial Property's report on new "Law on Inventions and Trademarks"

(NOTE — Mexico recently enacted laws which will have decisive impact on the transfer of technology process in this country. One such example is the "Law on Inventions and Trademarks." It supercedes the Industrial Property Law of 1942. The law was approved by the Mexican Congress and goes into effect the day after its publication in the Official Daily.

(At the time this column was mailed to Les Nouvelles *the law had not been published. Working on the known text, the Mexican Association of Industrial Property prepared various general comments on this new law which we believe to be of interest to LES members. When the official text of the law is published we expect more detailed studies and comments will be available for publication.* — BJORN B. VADILLO, LES MEXICO.)

A Law on Inventions and Trademarks was enacted in January, 1976, superseding the Industrial Property Law enacted on December 31, 1942. The main characteristics of the new law are as follows:

PATENTS

I. Non-Patentable Inventions

According to the Law, the following are no longer patentable:

1. Plant varieties and animal breeds, as well as their process of obtainment.
2. Alloys
3. Pharmaceutical products and their mixtures, medicines, beverages and foods for human or animal use, fertilizers, plaguicides, herbicides and fungicides.
4. The processes for obtaining mixtures of chemical products, the processes for obtaining alloys and the processes for obtaining, modifying or using the products and mixtures referred to in the above paragraph.
5. Inventions relating to nuclear energy and its security.
6. Antipollution equipment and apparatus and the methods of making, modifying or applying them.

Chemical products were not patentable under the prior law, wherefore, paragraph 3 is novel only in regard to pharmaceutical mixtures, medicines, beverages and foods.

The Law provides that the inventions mentioned in paragraphs 4, 5, and 6 can be protected through certificates of invention, to which reference shall be made hereafter.

II. Novelty Examination

According to the law, it is mandatory to request that a novelty examination be made in regard to all new applications, within a term of 90 days counted from the expiration for a term of one year after the filing date or the application will be abandoned.

III. Term of Enforcement

Patents granted under the new law will be in force for an unextendable term of ten years counted from the date of issuance, instead of 15 years counted from their legal date, as provided by the prior law. Considering that the prosecution of a patent takes from two to three years, the term of enforcement has been reduced by between two and three years.

IV. Working

The process or articles covered by the patent should be used or produced. The importation of a product does not constitute working.

Working of the patent should begin within a term of three years counted from the date of issuance and should be proven to the satisfaction of the Ministry of Industry and Commerce within a term of two months after the date when the invention began to be worked.

If the patent is not worked within a term of four years counted from the date of issuance, the patent will fall into the public domain.

V. Compulsory Licenses

If the patent is not worked within a term of three years counted from the date of issuance, or if the exploitation is suspended for more than six months, any person can request to the Ministry of Industry and Commerce the granting of a compulsory license to exploit the patent.

Should a compulsory license be granted, the Ministry of Industry and Commerce shall establish the terms and conditions thereof, including the rate of royalties.

CERTIFICATES OF INVENTION

Certificates of Invention are similar to patents, except that instead of granting to their holder an exclusive right to exploit the invention, they grant the right to receive compensation from whoever wishes to use the invention; such compensation to be negotiated by the parties or, if an agreement is not reached, shall be set by the Ministry of Industry and Commerce.

Certificates of Invention can be requested in regard to the same inventions, in regard to which patents can be requested, at the election of the applicant.

Besides, Certificates of Invention can be also requested in connection with:

1. Processes for obtaining mixtures of chemical prod-

ucts, processes for obtaining alloys and processes for obtaining, modifying or using medicines, beverages and foods for human or animal use, fertilizers, plaguicides, herbicides and fungicides.

2. Inventions relating to nuclear energy and its security.

3. Antipollution equipment and apparatus, and processes for making, modifying, or applying them.

The law tends to encourage obtainment of Certificates of Invention, instead of patents, awarding the former a preferential treatment in regard to working and duties.

I. Term of Enforcement

Certificates of Invention are valid for a term of ten years counted from the date of granting.

II. Working

The law does not require that the invention covered by a certificate be exploited.

III. Licenses

Any person can exploit an invention covered by a certificate. The owner of the certificate and the licensee should agree on the terms of the license.

Should the parties be unable to arrive to an agreement, the Ministry of Industry and Commerce shall establish the terms and conditions thereof.

MODELS AND INDUSTRIAL DESIGNS

The basic change in regard to models and industrial designs is that they will be in force for a term of five years counted from the date of grant, instead of 12 years counted from the legal date as provided in the prior law.

TRADEMARKS

I. Trademarks

Trademarks shall be registrable without the requirement of prior use.

II. Service Marks

For the registration of service marks it is necessary for the applicant to have a business establishment.

III. Nonregistrable denominations

Besides the prohibitions contained in the former law, the law provides that the following denominations or devices cannot be registered as trademarks or service marks:

a. Letters, numbers, and colors unless they are combined or have other elements which make them distinctive.

b. Those which reproduce or imitate symbols or denominations adopted by a state as identification of control and guarantee.

c. Those which imitate bills, coins, or other official means of payment, from Mexico or foreign countries.

d. Those which reproduce or imitate decorations, medals, or other prizes obtained in expositions, congresses, cultural or sports events, officially recognized.

e. The titles of literary, artistic, or scientific works, and their characters, unless a consent of the owner is given for this purpose.

f. The denominations of towns or places which are characterized by the fact that certain products are made therein, if said denominations cover those products.

g. Maps.

h. Translations into other languages of nonregistrable words.

IV. Term of enforcement

Service marks or trademarks are valid for a period of five years counted from their legal date.

V. Renewals

Trademarks or service marks can be renewed indefinitely. However, the renewal of a mark will only be granted if it is proven that the same has been continuously used.

The law provides that in case of trademarks or service marks registered in several classes, it is only necessary to prove the use of the same in one of the classes in order to have the possibility of renewing all of the registrations in the different classes.

VI. Use

The use of a trademark or a service mark has to be proven to the satisfaction of the Ministry of Industry and Commerce, within a term of three years counted from the date of grant. If the use is not proven, the registration will lapse.

As mentioned above, the law provides that in the case of a trademark or service mark registered in several classes, use of the mark in one class shall be sufficient to maintain the registration in the other classes.

VII. Obligation of using a Mexican mark with foreign marks

The Law provides that trademarks of foreign origin, or owned by foreigners, which cover articles made or produced in Mexico, *must be used with a trademark originally registered in Mexico, owned by the licensee.*

The law provides that all agreements regarding use of trademarks should contain the obligation of using a trademark originally registered in Mexico with the foreign trademark. Failure to comply with this obligation, will render the agreement null since it will not be registered by the Bureau of Transfer of Technology.

A term of one year counted from the date of use of the foreign trademark is granted to comply with the above obligation.

VIII. Limitations of trademark rights

The Ministry of Industry and Commerce may order that a given product or service, from a specific source may not be sold under different trademarks.

Likewise, the Ministry may prohibit the use of trademarks in certain products, if the public interest so requires.

IX. Denominations of origin

These denominations will be protected through the corresponding declaration made by the Ministry of Industry and Commerce, and cannot be used by unauthorized persons, including those cases where the denomination is used with the words "Type", "Class", "Imitation", or other similar words.

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European Community Law

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exclusive license fell within the prohibition of Article 85(1). However, the Commission found that an exemption could be granted under Article 85(3) because the licensee Luchaire did not occupy such an important position in the EEC that it had power to eliminate competition in a large part of the relevant product market.

The Commission also held that a restriction that the licensee could only sell the licensed products in certain specified countries outside the EEC did not affect competition within the Common Market, because the products concerned were not suitable for marketing through intermediaries and were therefore unlikely to be reimported into the EEC.

Secrecy Agreement

The licensee had accepted an obligation to keep the know-how secret after the termination of the agreement. Likewise the licensee was obliged to pay royalties for the use of the licensed know-how after expiry of the agreement. These were found to be allowable conditions.

One can summarize this case by saying that an exclusive manufacturing license may be prohibited by Article 85(1), but it may be exempted by the Commission if good cause can be shown. However, any restrictions imposed on the licensees which prevent them selling throughout the Common Market will certainly not be acceptable. One can also argue that a know-how agreement may in many cases be more useful than a patent license agreement, since the Commission found acceptable the concept that the licensee should continue to pay for use of the licensed know-how after expiry of the agreement.

In *Bronbemaling*, the Dutch company "Heidemaatschappij" had filed two patent applications in 1965 and 1967, relating to a process for the installation of a well-point drainage system and a system installed using this process. Three parties opposed the grant of patents on the applications. The opposition was withdrawn after conclusion of agreements in which Heidemaatschappij granted each opponent a license. A condition of the license agreement was that the patentees would not grant licenses to other firms in Holland without the consent of a majority of the existing licensees. The justification stated for the clause requiring consent from the existing licensees, before further licenses were granted, was that the licensees had spent time and money improving the patented process. At a later date two other Dutch companies applied to the patentees for a license and, after consultation with the licensees, the patentees decided that no further licenses should be granted.

The Commission held that the agreements fell within Article 85(1) since they restricted competition. It then held that no exemption could be granted under Article 85(3). There might in the circumstances have been justification for the patentee charging differential royalty rates, as between an existing licensee and a new licensee, but there could be no justification for restriction of his rights to grant further licenses. In other words, there was no justification for a restriction of capacity in the circumstances of this particular industry.

It must be emphasized that these decisions are consistent with each other, although in one an exclusive manufacturing license was permitted, and in the other the existence of several licensees was not found a good enough reason for a clause in an agreement where a patentee bound himself not to grant further licenses unilaterally. In both cases the Commission found that the agreements restricted competition within the meaning of Article 85(1). However, in one case the Commission granted exemption under Article 85(3), while in the other case it did not. In the former case it found that consumers benefited from the restricted agreement, while in the later case there was no such benefit.

Having said this, we must admit that there is still considerable uncertainty as to the acceptability of a number of typical clauses which are often inserted in patent license agreements. The Commission publishes every year a Report on Competition Policy. The Fourth Report on Competition Policy was published in April 1975 and contains a lengthy analysis of acceptable clauses in patent license agreements. This should be consulted and studied in attempts to resolve the existing uncertainties.

We understand that a new notice, to replace the Notice of 1962, is to be expected, and that the contents of this notice will be based on the Commission's policy as expressed in the Fourth Report on Competition Policy.

There are other parts of the world where a patentee's rights are under close scrutiny, and the terms of any license agreement may be considered by a government regulatory agency. The same is becoming true in Europe and there is little sense in attempting to ignore the activities of the Commission of the EEC in its attempts to regulate the relationships between a patentee and his licensees.

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X. Trade names

Trade names can be protected in regard to the area of effective clientele for a term of five years. These registrations can be renewed indefinitely.

If the use of a trade name is interrupted for a term of one year, the protection will lapse.

XI. Slogans

Slogans can be protected for specific products or establishments. Registration shall be for a nonrenewable term of ten years.

VIOLATIONS

The law considers as administrative violations, a series of acts contrary to the provisions of the law, some of which were considered as crimes in the prior law. Among others are the following:

a. All acts contrary to good business practices, which constitute unfair competition.

b. Indicating that certain products are patented, when they are not.

c. The use of a trademark confusingly similar to a registered mark to cover the same or similar products or

services as those protected by the registered trademark, if said confusion has been declared by the Ministry of Industry and Commerce.

d. The use of a registered trademark, without the owner's consent, as an element of a trade name, if said trade name is used on an establishment which sells or produces products or renders services identical or similar to those covered by the trademark.

e. The use of trade names, within the geographic area of effective clientele, confusingly similar to another which is being used by a third party, in regard to a commercial establishment engaged in the same type of business.

f. To sell or circulate products, or render services, under a mark with the indication that it is a registered trademark, when it has not been registered.

g. Industrial or commercial practices which cause or induce the public into an error, confusion or mistake, by falsely suggesting:

i) The existance of a relation or association between an establishment and another of a third party.

ii) That the products are manufactured under certain specifications, license, or authorization of a third party.

iii) That the services are rendered or the products are sold under authorization, license, or specifications of a third party.

The penalties for administrative violations are the following:

a) Fine from 100 to 100,000 pesos.
b) Temporary closing of the establishment.
c) Definite closing of the establishment.
d) Administrative arrest for up to 36 hours.

In case of continued violation, the fine may be doubled without exceeding 300,000 pesos.

A petition for reconsideration may be filed against the application of a penalty.

The following are considered by the Law as crimes:

a) The manufacture of products covered by a patent or certificate of invention, without the consent of its proprietor or without the corresponding license or authorization.

b) The use of processes covered by a patent or certificate of invention, without the corresponding authorization.

c) The reproduction of industrial models or designs, without the corresponding authorization.

d) The unauthorized use of a registered trademark to distinguish the same or similar products covered by the registration.

e) The modification of products covered by a trademark.

f) The commercialization of products covered by a trademark, after having modified, altered, or suppressed the trademark.

g) The use of a trade name similar to a trade name previously used by another, in the same geographic area and for the same area of business.

The foregoing crimes shall be penalized with imprisonment of from two to six years and/or fine from 1,000 to 100,000 pesos.

GENERAL PROVISIONS

Patents and trademarks granted under the prior law shall be in force during the term for which they were granted.

A term of three years is granted to prove the use of trademarks registered under the prior law.

The exploitation of patents granted under the prior law must commence within a term of four years counted from the date of enactment of the law.

The parties to trademark license agreements recorded with the Bureau of Transfer of Technology shall have a term of two years to amend the agreement in order to include the obligation of using a trademark originally registered in Mexico together with the foreign trademarks. Failure to comply with the foregoing obligation will render the agreement ineffective.

Marketing of Process Technology

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personnel, as well as start-up assistance. If there are process guarantees, the licensor will be represented prior to and during the running of the performance test. Following the start-up of the plant the licensor may provide continuing technical assistance for a period of time, and there may be periodic meetings with the licensee to exchange information on new developments. On the accounting side, the licensor should be organized to receive and monitor accountings and royalty payments by the licensees, and, when required, perform an audit of the licensee's operations.

Effort Required

In most licensing with industrialized Western countries the effort required to promote, negotiate, and implement a licensing arrangement is less than that required for similar dealings in many East European countries. The latter generally desire to purchase a complete plant and negotiate with the licensor and/or an engineering contractor through a foreign trade organization representing the industry which will operate the plant. During such negotiations much detailed pre-license information is requested (often without a secrecy agreement), many visits to the country of the licensee are requested for detailed technical discussions and, because of the extensive requirements of time and travel by the personnel of licensor, the cost of marketing technology and servicing licenses in these countries is significantly higher. The licensor may similarly expect higher costs for marketing technology in the developing countries of Latin America, Africa, etc., and, in view of the present attitude of such countries toward technology transfer, the reward for providing technology to them may be significantly reduced by severe governmental restriction on royalties, confidentiality term, and payment terms. In each of these instances the licensor should carefully review his objectives and the expected profitability before embarking on a licensing program in such countries.

Each process licensing opportunity is somewhat unique, even for the same technology. It cannot be emphasized too strongly that a successful process licensing effort requires a thorough study of the industry and each licensing situation.