

# Criteria for Applying Mexican Law

*English interpretation of new Law on Registration of Transfer of Technology and Use and Exploitation of Patents and Trademarks*

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The object of this document is to present a summary of the general criteria for application of the Law on Registration of Transfer of Technology and Use and Exploitation of Patents and Trademarks. It covers solely Article 7 and deals concisely but in detail with the most outstanding aspects of the law.

Such criteria take into account the experience attained after 18 months from the effective date of the law and are oriented toward a more adequate process for engagement of technology. Such criteria should be used merely as reference, since the proper interpretation or construction in a specific case shall be in the light of the conditions prevailing at a given time.

An object of the policy is to apply the criteria set forth below consistently so that individuals may enjoy the necessary juristic security in engagement of technology.

**FRACTION I.** *"When its purpose is the Transfer of Technology freely available in the country, provided the same technology is involved."*

In connection with this clause, a contract cannot be accepted if:

- the purpose of the same involves solely license to exploit a patent which has no validity or has lapsed.
- it involves technical knowledge that has entered the public domain.
- it entails furnishing technical knowledge which the receiving company is in a position to carry into practice by itself without additional cost.
- it refers to importation of technical knowledge which a local research institution of duly substantiated technical prestige is willing to furnish gratuitously in the same conditions as a foreign offerer.

**NOTE:** With respect to those four points, it is necessary to fulfill the requirement that *technology freely available in the country* is substantially similar to technology sought to be imported.

**FRACTION II.** *"When the price or consideration are not in proportion to the technology acquired or constitute an unjustifiably excessive burden for national economy."*

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In connection with this fraction, it is not possible to establish general rules to enable definition of what is meant by an adequate consideration. However, a careful and detailed evaluation is required from the technical-economical point of view which enables casuistical determination of whether payments to be made are in due proportion to the technical knowledge or technology to be acquired, or if such payments are a justifiable burden for national economy.

On the other hand, decisions taken by the register will serve as precedent for future cases. Hence, the ruling issued with respect to a specific case must be consistent with rulings dictated in the future on other cases wherein substantially similar conditions are met.

## General Rules Relating to Fraction II

- It is essential to specify clearly and precisely the base for computing the consideration due from licensee.
- It is important that the contract establish that the taxes on such payments will be for the account of the licensor (which is the party receiving such income).
- From the point of view of evaluation of the consideration, the "total flow of payments" during the life of the contract must be determined.
- The following will be taken into account in determining the total flow of payments:
  - i) The formula stipulated in the contract for making such payments.
  - ii) The figures projected from the financial items.
  - iii) The number of months or years of the contract term of duration.
  - iv) The dates set for the pertinent payments, giving special attention to computation of the present value of amounts to be paid prior to maturity.
- Article 7, Fraction II, establishes the need to evaluate payments both in terms of market (private) and in terms of interest of national economy (social).
- In order to be in a position to determine the consideration in terms of market, contracts will be examined comparing the same with the conditions conventioned by other companies in Mexico and abroad, which operate in the same sector.

Criteria relating to Article 7 Fraction II are mentioned below, taking into account the various types of contracts regulated by Article 2 of the law:

### 1. For use or license to use trademarks

- When there is no capital relation between the licen-

sor company and the receiving company, payments authorized for use of trademarks (owned by licensor) shall be on the level of 1 percent on net sales.

- As a general rule, no payments of royalties for use of trademarks owned by licensor shall be authorized when licensor has a majority interest in the licensee's capital.
- No payment of royalties will be permitted for trademarks that are not used continuously.
- Creation and use of national trademarks will be promoted so that products may be identified both in the domestic and in the foreign market as Mexican products.
- Acquisition of rights for use of new foreign trademarks will be discouraged excepting cases in which:
  - i) they are deemed important for exportation purposes.
  - ii) the characteristics of the mark so justify as relates to the technical prestige entailed by the trademark and the impact it may have in the development of new assets and services of interest to the country.

## 2. License to use or authorization to exploit patents of invention, improvement, models and industrial drawings

The Law of Industrial Property in Mexico refers to the following classes of patents as object of regulation: patents of invention  
patents of improvements  
patents of models and industrial drawings.

- The Register will supervise very closely "the extent of exploitation", lapsing or expiration and invalidity of patents forming part of a contract so that payment will be restricted strictly to patents in force.
- Any payment to be effected with respect to use of a patent that has not been issued by the General Bureau of Industrial Property, but which has already been applied for, *will be authorized conditionally*.
- From the point of view of analysis, the Register will establish a difference as regards a basic patent or a secondary or subsidiary patent.
- All expenses incidental to application, issuance and renewal of the term of patents in the General Bureau of Industrial Property shall be paid by the owner of the patent (licensor).

The licensor or licensing company shall assume full responsibility for any possible infringement by third parties of patents owned by it.

In general terms, payments of royalties as patent fees shall be maintained on the same levels as those established in the case of trademarks.

## 3. Furnishing of technical knowledge

From the point of view of evaluation, payments relating to furnishing of technical knowledge which is frequently made through lump-sum payments either in one single initial payment or in various payments, should be distinguished from those relating to furnishing of technical advice on a continuous basis.

- With respect to technical knowledge incorporated in drawings, formulae, specifications, operating manuals, etc., no limitation whatsoever as regards use of such knowledge may be accepted.
- No restriction or limitation established on the use of unpatented technical information will be accepted upon expiration of the term of duration of a contract.

## 4. Basic or detail engineering services

In view of the fact that in practice basic engineering and detail engineering are generally acquired from different sources, the division of functions in this area must be carefully determined and from the point of view of analysis the extent of responsibility each party is to assume must be established.

- Whenever licensor is liable for the furnishing of basic engineering together with processing technology, the contract shall specifically include guaranties in the following areas:
  - i) production volumes
  - ii) yield or performance
  - iii) quality of products
- The payments for engineering services shall be evaluated as relates to comparative offers on substantially similar bases.

## 5. Technical assistance

- When technical assistance refers to manufacture of various products or services and consideration is established on an over-all basis, the following must be specified:
  - i) Which are each of the products and what is their importance in the operation of the company.
  - ii) The duration of the contracts which cover the aspect of technical assistance shall be the minimum term required for adequate assimilation of the knowledge so transferred.
- From the point of view of evaluation, the technical assistance shall be analyzed from the following points of view:
  - i) The scope or extent of the technical assistance to be furnished.
  - ii) The degree of complexity of the manufacturing process.
  - iii) The "age" of the products and processes relating to the technical assistance.
  - iv) The dynamics of the technological change and the position of the licensing company in the industrial sector and field involved.

## 6. Business administration and operation services

The evaluation of administration services will take the following into account:

- i) The sector in which such services are to be used.
  - ii) The requirements of the receiving company.
  - iii) The type and scope of such services.
- Payments relating to this type of services are to be evaluated as related to the economic benefit resulting from the same to the receiving company.

**FRACTION III.** "When clauses are included permitting the regular supplier to intervene directly

or indirectly in the administration of the acquirer of technology."

Under this fraction, a contract may not be accepted when:

- The purpose of the contract being the use of trademarks, patents or technical knowledge, the acquiring company is forced directly to assign all or any part of its administration to the supplier.

- The licensor acquires the right of decision in areas beyond the contract purpose.

As relates to this fraction, a contract may be inscribed if:

1. The purpose thereof refers specifically to rendering of business administration or operation services to enable the acquirer to develop its activities more efficiently.

2. The technical personnel of the licensor may cover certain administrative aspects for limited periods, provided such services are deemed essential for adequate operation of the receiving company.

3. Trademarks are involved and assistance is oriented to maintaining adequate levels of quality.

4. Supplier of technology is granted the right to examine the books of account of the receiving company for the sole purpose of ascertaining that the pertinent royalty payments are adequate, provided that this does not imply a permanent control of the receiving company's accounting.

**FRACTION IV.** "When the obligation to assign onerously or gratuitously to the supplier of technology any patents, trademarks, innovations or improvements obtained by the acquirer is provided."

Under this fraction, a contract may not be accepted when:

1. It provides the obligation to assign title to or ownership of any trademarks or patents developed by the licensee during the life of the contract.

2. It stipulates the licensee is obligated to assign its own trademarks or patents if the contract is terminated, assigned to third parties or expires.

3. The exchange of information on improvements or innovations developed by either party is not mutually effected as relates to the following elements:

- i) the territory
- ii) the extent of exclusivity
- iii) the payments relating to improvements or innovations.

**FRACTION V.** "When limitations are imposed on technological research or development of the acquirer."

Under this fraction, a contract may not be accepted if:

1. The Licensee is restricted or forbidden the right to initiate research and development programs in connection with new products, processes or equipments, etc.

2. Limitations are established on any improvements in the products or processes granted under license.

3. The incorporation of improvements in products, in particular when no trademarks involved in the contract exist, is made subject to limitation or condition, in unjustifiable manner.

4. The incorporation of improvements obtained from third parties are unjustifiably limited or made subject to condition.

5. The field of use of proprietary information is limited without justification.

6. The receiving company is forbidden to start the research and development project after termination of the

contract.

7. The licensee is compelled to return the drawings, specifications, operating manuals and other after termination of the contract.

**FRACTION VI.** "When the obligation is stipulated of acquiring equipments, tools, parts or raw materials solely from a certain source."

In general terms, a contract may not be accepted if:

1. The licensee agrees to acquire raw materials from its supplier of technology at the price specified by said supplier during the life of the contract.

2. The licensee agrees to acquire such raw materials from a source of supply indicated by the licensor.

A contract may be accepted if:

- It is stipulated that the licensor shall have the obligation of providing equipment, tools, parts or raw materials to the licensee at the prices prevailing in the international market and in any case, the licensee shall be free to purchase the same from the source it may deem to its best interest.

**FRACTION VII.** "When the exportation of goods or services produced by the acquirer is prohibited or restricted in a manner contrary to the interests of the country."

With respect to this fraction, a contract may not be accepted if:

1. A total prohibition of exportation is established.

2. The licensee is forbidden the right to export to certain geographic areas where the licensor has not previously granted exclusive rights to third parties.

3. Maximum sales volumes for exportation are established.

4. The licensee is obligated to export only through the licensor on unfavorable conditions.

5. The licensee is unjustifiably obligated to pay a higher royalty on export sales.

6. Licensor's prior authorization is required to carry out any exportation.

A contract might be accepted, even if it contains limitations on exportation, if any of the following circumstances are present:

- If the licensor has granted exclusive sale rights in other countries.

- If the licensor is not authorized to grant rights for exportation to certain areas in accordance with the laws of his country.

- When only certain markets are granted but such markets are adequate to satisfy the licensee's exportation capacity.

Generally speaking, it should be endeavored to grant licensees in contracts their natural markets, such as those of the American Continent.

**FRACTION VIII.** "When the use of complementary technologies is prohibited."

In connection with this fraction, a contract shall not be accepted if:

1. The use of knowledge of third parties is prohibited with respect to manufacture of the licensed products.

2. The manufacture of products other than those covered in the contract which may expand or supplement the licensee's production lines is prevented.

3. The manufacture of products similar to the licensed products is impeded.

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percent or below. If the foreign taxes exceed 37 percent, no refund is obtainable for the excess amount.

The foreign tax credit rule is included in Danish Income Tax Law, and similar rules are incorporated in some taxation agreements. The taxation agreement may never increase the taxation that follows from Danish rules, but may only ease such taxation. Some of the taxation agreements, especially with the developing countries, have "tax-sparing" clauses which provide for a greater relief from double taxation than internal Danish legislation.

#### TURNOVER TAX

In some countries indirect taxes are levied on royalties. Such taxes are neither comprised by the general taxation agreements nor by the internal Danish tax credit rule which relates to income taxes only. The taxes are, however, deductible from the taxable income of the Danish recipient.

A business which is about to sign license contracts with foreign enterprises should, of course, in addition to the knowledge of Danish tax rules and taxation agreements, also obtain detailed information from local sources about taxes and any other expenses that may be of importance in the negotiations regarding the amount of the license.

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A contract may be accepted although it contains some of these limitations if any of the following circumstances occur:

- When the contract involves license to use a trademark owned by the licensor.
- The purpose of the limitation is to prevent the disclosure of technical information of a confidential nature furnished by the licensor.

**FRACTION IX.** "When the obligation to sell the goods produced by the acquirer solely to the supplier of technology is established."

In connection with this provision, a contract shall not be registered if:

1. The licensee is obligated to sell to the licensor all the products manufactured by licensee at the price fixed by the licensor.
2. The licensee is obligated to sell all its production to a company designated by the licensor.

A contract may be admitted if:

- The licensee engages solely in the manufacture of intermediate products, parts or components for their subsequent processing, assembly or finishing by the licensor and said licensor is the only potential buyer of said intermediate products.

- This obligation is established on an exclusive basis as regards certain export markets and the provision is beneficial to the licensee.

**FRACTION X.** "When the acquirer is compelled to use on a permanent basis personnel specified by the supplier."

The exception to enforcement of this provision is:

- If there are no national technicians who can perform the function in question and licensor furnishes personnel designated by it temporarily and assuming the obligation to train national technicians capable of replacing the personnel so designated.

**FRACTION XI.** "When limitations are imposed on production volumes or sale or resale prices are set for national production or for exportations of the acquirer."

In connection with this provision, a contract shall not be registered if:

1. A minimum production volume is established under penalty of contract termination in the event such is not reached.

2. The receiving company is not authorized to exceed certain specified production volumes.

3. It is provided that at expiration of the contract the acquiring company cannot continue using the technology transferred to it unless the contract involves solely the use of patents and said patents are in force.

4. The licensor is granted the right to fix the prices of the products.

5. Any other obligation not to do, such as not to manufacture the products which are the object of the contract upon expiration of the same, is established.

**FRACTION XII.** "When the acquirer is obligated to enter into exclusive sale or representation contracts with the supplier of technology in national territory."

Application of this provision may be excepted in the event licensor shows that it has an adequate distribution system or enjoys commercial prestige which enables licensor to carry out the marketing of the products under the contract on better conditions than the licensee.

**FRACTION XIII.** "When excessive terms of duration are provided. Said terms may not exceed in any case 10 years mandatory for acquirer."

In connection with this provision, the contract shall not be admitted if:

- Notwithstanding stipulation of a term of duration of less than the maximum (10 years), it is deemed that the technology can be assimilated in less time than that specified in the contract.

- The contract contains obligations for the licensee after termination of the contract for an indefinite period or for a term in excess of the maximum time authorized by the law.

**FRACTION XIV.** "When cognizance of or decision on the actions which may arise due to interpretation or performance of the contracts is submitted to foreign courts of law."

A contract may be admitted for registration if:

1. It does not contain an express submission to national courts since in this case the rules of the Civil Code for the Federal District and Territories in force relating to jurisdiction apply in any case.

2. A clause is included containing an arbitration commitment in conformance with the terms of the Covenant on recognition and execution of arbitration awards rendered abroad, published in the Federal Daily Gazette of June 22, 1971.

The last paragraph of Article 7, fraction XIV indicates that acts, agreements or contracts shall be governed by Mexican laws.

In the event the contract does not contemplate which laws are to regulate the same, it should be admitted for registration anyway.