

¹⁰McLaren, "Patent Licenses and Antitrust Considerations" *PTC Research Institute*, June 5, 1969, p. 7.

¹¹*United States v. Glaxo Group, Ltd.*, *supra*, n. 1, Brief for the United States, pp. 17 and 19.

¹²Emphasis added. *Supra*, n. 1 at 4197.

¹³See *MacGregor v. Westinghouse Electric & Mfg. Co.*, 329 U.S. 402 (1947); *Edward Katzinger Co. v. Chicago Metallic Mfg. Co.*, 329 U.S. 394 (1947); *Sola Electric Co. v. Jefferson Electric Co.*, 317 U.S. 173 (1942).

¹⁴According to one calculation, more than 72% of the patents which have been litigated in the Court of Appeals since 1966 were held invalid. Gausewitz, Brief in Support of Proposed Amendment to 35 U.S.C. Sec. 103, *Los Angeles Patent Law Association*, p. 8. ¹⁵340 U.S. 147 (1950).

¹⁶340 U.S. at 156-58.

¹⁷*Ken Wire & Metal Products, Inc. v. Columbia Broadcasting Systems, Inc.*, 172 U.S.P.Q. 632, 626 (S.D. N.Y. 1971).

¹⁸*Lemelson v. Topper*, 450 F. 2d 845, 849 (2d Cir. 1971).

¹⁹144 U.S. 224, 234 (1892).

²⁰*Lear, Inc. v. Adkins*, 395 U.S. 653, 674, n. 19 (1969).

²¹*Blonder-Tongue Labs v. University Foundation*, 402 U.S. 225, 230 (1971).

²²Bruce R. Wilson, "Patents and Antitrust: How Clear is the Water?" *Philadelphia Patent Law Association*, November 30, 1972.

²³*U.S. News & World Report*, January 22, 1973, p. 35.

THE NEW MEXICAN LAW ON REGISTRATION AND TRANSFER OF TECHNOLOGY FROM THE LICENSOR'S POINT OF VIEW

by
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(This talk was presented by Marcus B. Finnegan in Mexico City on February 22, 1973 at the "Roundtable on Technology" concerning the new Mexican law which went into effect on January 29, 1973.)

As the President-Elect of the Licensing Executives Society, I am flattered that you have asked me to speak to you on the new Mexican law on the registration and transfer of technology from the licensor's point of view.

Since I am from the U.S., it is, of course, easiest for me to speak about the point of view of U.S. licensors towards the new law, and to perhaps assume that the viewpoint of U.S. licensors will be closely analogous to the viewpoint of licensors in general. Undoubtedly, the United States' investment in Mexico is larger than that of any other single foreign country, and therefore it is natural that you would be most interested in the U.S. point of view.

Speaking generally, there was a great deal of comment in the U.S. press and from U.S. companies when the proposed provisions of the new Mexican law were first announced. This comment, as you know, was mostly unfavorable, and stressed the strictness and harshness of the new Mexican law.

Things have now settled down to some extent, and U.S. licensors have begun to take a closer, more analytical look at what effect these new provisions of law will actually have on them, particularly as licensors of technology into Mexico. As I see it, there are two main problems which caused the original, somewhat violent reaction in the United States to the

new law when it was initially proposed.

First, up to now, U.S. licensors have had virtually complete freedom to do as they pleased in Mexico, as compared to the restrictions that have been imposed upon them for many years in the U.S. itself by enforcement of the antitrust laws. Today, however, Mexico has, by one stroke of the pen, created a law that is fully as strict and probably more strict than the U.S. antitrust law.

Quite naturally, U.S. licensors reacted unfavorably upon discovering that the same prohibitions that they had been confronted with and dislike in the U.S. now exist in Mexico, where no such prohibitions existed before. The point is that U.S. licensors have always been opposed to these prohibitions in the U.S. So it is to be expected that they also heartily dislike and complain about having to face similar prohibitions in Mexico.

Second, the new Mexican law has aroused U.S. licensors, because a number of its provisions are written in very broad language, and the acceptability or unacceptability of these provisions to licensors will depend almost entirely on how they are interpreted and administered. Clause 1 of Article 7 of the new law is an example of such a provision, and I will discuss this in more detail in a moment. There are other clauses in Article 7 that are also capable of either a liberal or a strict construction, and the way these clauses are construed can make a tremendous difference on the impact that the new law has on a licensor.

The foregoing are general observations about licensors' attitudes towards the new Mexican law. I think it is much more helpful and instructive, however, to examine specific provisions of the new law and to predict how licensors would regard each of these specific provisions. As we shall see, there are some provisions of the new law which licensors will readily accept or regard as harmless. There are other provisions, however, which may give licensors genuine concern and depending upon how these provisions are construed and administered, they could produce either a favorable reaction or a strongly negative reaction on licensors.

Certainly, it will be very important to Mexico to ensure that this new law is wisely administered by a person having competence in the fields of licensing and industrial property. If administration of the new law should be put into incompetent hands, there would be an opportunity for vast mischief to result.

After all, the incentive to make a profit is still the basic motivating force which will cause licensors to want to transfer their technology into Mexico. If licensors feel that the new law has filled the path to profit with traps and barriers, they will be reluctant to invest their resources in transferring their technology to Mexico and will prefer to expend their resources in moving that technology into more profitable and less strictly controlled markets. There is thus a fine line between effective administration of the new law from the point of view of Mexico and an administration of the law that will not discourage licensors from investing in the transfer of technology to Mexico to the extent where the law becomes self-defeating.

In general, although the new Mexican law on transfer of technology is somewhat more severe or harsh than the present U.S. antitrust laws with respect to prohibiting certain acts by licensors, I feel that the provisions of the new Mexican law are nevertheless, very similar in their content and philosophy to the prohibitions that exist against licensors under U.S. antitrust law in the United States.

The first outstanding difference between the new Mexican law and U.S. law that a licensor encounters upon reading the new Mexican law, is that the Mexican law requires the compulsory registration of all license agreements with the National Registry for the Transfer of Technology. If an agreement is not registered within the time periods prescribed under the law, the agreement will be illegal and unenforceable in Mexico.

In the United States, the law is completely different. There is no requirement that agreements must be registered with any government agency to make them legal and valid. In fact, in the United States, agreements are considered private agreements and may be kept secret between the companies, unless there is a dispute between the licensor and the licensee, that would cause the agreement to come before a court adjudicating the dispute. The agreement would in this way then become generally available to interested parties.

What is the attitude of licensors toward this requirement of the Mexican law? Since U.S. licensors are not used to a requirement for registration of their agreements, they are reluctant to change their usual behavior and comply with the requirement to register. U.S. licensors would tend to regard the requirement to register as requiring them to do something they feel should be unnecessary.

As a practical matter, however, the registration requirement should not seriously deter licensors from continuing to transfer technology through licensing into Mexico, because whenever a dispute occurs about a license agreement in the United States, it must be taken to court. The agreement must at that time be filed in the court. Once the agreement is before the court, it then becomes accessible to the public at large to almost the same extent as though it were actually registered under a government registration procedure.

I also feel that U.S. licensors when they analyze the new Mexican law, can appreciate that the objectives of the Mexican law and those of the antitrust laws are quite different.

The principal objective of the U.S. antitrust laws is to ensure that free and open competition exists between companies operating in the same market. On the other hand, I feel the principal objective of the new Mexican law is to aid Mexico as a developing country to better control the kind and quality of technology that is introduced into Mexico and to ensure that the technology which is paid for by Mexican companies, is, in fact, valuable and useful technology.

The registration requirement of the Mexican law will undoubtedly help the Mexican government to gain detailed information on what technology is actually being transferred into Mexico, and what costs

or other considerations are being paid for this technology. I believe it is possible for a licensor to understand that these different objectives exist within the two countries and to accept the registration requirement as a furtherance of the objectives of Mexico and to accept it with the hope that this requirement will be fairly and wisely administered.

Another difference between the objectives of technology transfer in Mexico and in the United States is that Mexico has a need for technology that is more labor intensive than that which is presently being used in many industries in the United States. There is thus, a need for downscaling of some of the U.S. technology to a level that will require use of greater amounts of labor to ensure that the Mexican labor force is as fully employed as possible.

Downscaling of technology is not always an easy thing for a licensor to do, however. Usually, it is easiest for the licensor to transfer the technology that he is presently using rather than attempting to change that technology to downscale it, or to go back in time to a period when he was using a less sophisticated form of the technology. In other words, the downscaling may be a burden on the licensor which he would prefer not to accept. The licensor may, however, be willing to accept this additional burden, if he feels the overall results of a given technology transfer, or license agreement, will be beneficial to him.

I would now like to discuss the licensor's point of view towards specific clauses and provisions of the new Mexican law. The heart of the new Mexican law is contained in the fourteen (14) clauses that are set forth under Article 7. These clauses describe licensing restrictions that are declared to be illegal in Mexico. If an agreement contains such restrictions or conditions, it will not be eligible for registration in the new National Registry for the Transfer of Technology.

Many of the clauses of Article 7 of the new Mexican law are based directly on the same legal philosophy which, under U.S. antitrust law prevents a licensor from requiring a licensee to accept some condition he does not want in return for securing access to the desired technology. Licensors in the U.S. (and to some extent in the E.E.C.) are used to living under the prohibitions of the antitrust laws, and to the extent the new Mexican law is directly analogous to U.S. antitrust law, I would not anticipate that the licensors would be permanently shocked by the provisions of the new Mexican law.

On the contrary, I think that once things have settled down a bit, the licensors will see the direct analogy between most of the provisions of the Mexican law and the prohibitions of the U.S. antitrust law and be willing to accept and live with the prohibitions of the new Mexican law. Most importantly, I do not visualize that the U.S. licensors will be so discouraged by the prohibitions in the new Mexican law that they will actually stop trying to transfer technology to Mexico under the terms of the new law, nor do I foresee that they will even seriously cut back the amount and quality of the technology that they will be willing to transfer into Mexico. *But*, and this is very important to keep in mind, if the Mexican law is harshly or un-

justly interpreted and applied against licensors, there is no question that it could have a very serious effect in cutting down the inflow of technology into Mexico.

Now turning to the clauses of Article 7, clause I provides a prohibition against licensing technology that is already *freely available* in the country. If clause I is interpreted to mean that a licensor cannot impose restrictions on a licensee with respect to technology that is already in the public domain or freely available to the licensee, I feel this clause will be acceptable to licensors.

If this is the proper construction of this clause, it conforms to a general principle of U.S. antitrust law that technology which is in the public domain cannot be a basis for restricting a licensee. It may, however, be quite difficult to determine whether or not a certain item of technology is actually in the public domain, and hopefully, under the Mexican law, specialized know-how would be considered as industrial property belonging to its creator, and *not* in the public domain, unless it can be otherwise proven that it is in the public domain and freely available.

Clause II provides that an agreement will not be registrable if the consideration paid for the technology is considered to constitute an unjustified or excessive burden on the national economy, or in other words, if the price for the technology is determined to be excessively high. This provision of the law could prove to be a difficult one to administer.

So far as the point of view of licensors is concerned, in the U.S. under our antitrust laws, there have been recent developments indicating that the charging of exorbitant or excessive royalties, particularly if different royalties are charged to different licensees, can amount to an antitrust violation. But this law is not well-developed in the United States, and the general rule is still predominantly that a licensor is entitled to charge as high a royalty as he is able to negotiate. The Mexican law thus seems to be more harsh than the U.S. law with respect to this particular provision.

Clause III of the Mexican law prohibits a licensor from controlling or intervening, either directly or indirectly, in the management of the licensee's business. This clause is somewhat ambiguous. However, I do not visualize it as causing problems from the licensor's viewpoint.

In the United States, it would be a violation of the antitrust laws for a licensor to demand that he be given the power to control or intervene in the management of the licensee's business in return for transferring the licensed technology. Such an arrangement would undoubtedly be determined to be a tying clause which is a clear violation of U.S. antitrust law. Moreover, most licensees would strongly object to any attempt by a licensor to intervene in their business.

Clause IV of the Mexican law prohibits a licensor from requiring his licensee to assign back to the licensor the *title* to any patents, trademarks, innovations or improvements made by the licensee through practice of the licensed technology. This clause as written, should not cause any problems with U.S. licensors.

In the U.S. today, it is now established practice not to require mandatory "grant-backs" of *title* or *exclusive* licenses from a licensee on his improvement inventions. It is still common, and perfectly legal, practice in the United States, however, for licensors to require licensees to give them the rights to a *non-exclusive* license in any improvement inventions made by the licensee, and frequently such non-exclusive licenses will be royalty-bearing, *i.e.*, the licensor agrees to pay a royalty to the licensee for the non-exclusive right to use the improvement. It seems clear that the new Mexican law would not prevent licensors from requiring licensees to grant *non-exclusive* licenses to improvement inventions.

Clause V prohibits licensors from imposing restrictions on the research of technological developments of the licensee. Such a provision would also be illegal in the United States under our antitrust laws, as forcing a licensee to grant a right to a licensor he would not normally grant unless compelled to do so through an illegal tying clause tying the restrictions to the grant of the technology. Accordingly, Clause V should cause no problems with licensors.

Clause VI is a prohibition against the classical tying clause situation. It prohibits the licensor from requiring his licensee to purchase unpatented equipment, tools, parts, or raw materials exclusively from the licensor, or some other designated source. This kind of a tying clause is *per se* illegal under the United States antitrust law, and the prohibition against it in the Mexican law should therefore be accepted by licensors.

Again, of course, licensors would prefer to be able to insert such tying clauses in their agreements not only in Mexico, but also in the U.S., but since the prohibition exists in the U.S., licensors should also be willing to accept it in Mexico.

Clause VII prohibits a licensor from limiting the exportation of goods or services by his licensee in a manner that would be contrary to the interests of Mexico. This clause is a particularly difficult one for licensors to accept.

The resistance of licensors to this clause will depend very much upon how it is administered because the key question will be whether a specific prohibition on exportation is or is not "contrary to the interests of the country". Licensors would like to see some flexibility on export restrictions.

Often, a licensor will have an exclusive licensee in another territory, and he may wish to protect that exclusive licensee's market by placing a restriction on his Mexican licensee from exporting goods into the exclusive licensee's home territory. Also, under U.S. law, territorial restrictions are permitted if they are reasonable with respect to scope and duration. Thus, an export restriction on a licensee would be acceptable, if it were limited in time to the period that would be required for the licensor to establish himself in the U.S. market, free of foreign competition.

Such a period of time is sometimes referred to as a break-in period and would be the length of time that the U.S. licensor could show as being reasonable for him to get a strong position in the U.S. market. How

long this time period is depends primarily on how complex the technology is. In a complex technology such as computers, a time as long as eight (8) years might be reasonable. In a simple technology such as an ice cream making machine, perhaps only one (1) or two (2) years would be a reasonable period.

Clause VIII provides that a licensor is prohibited from requiring his licensee not to use complementary technology. Under U.S. antitrust law such a provision would be similarly illegal, and is referred to as a "tie-out" clause. A tie-out clause occurs when a licensor attempts to restrict a licensee's right to deal in a competitor's products or a competitive technology. I, therefore, feel that clause VIII should be generally acceptable to licensors.

Clause IX prohibits a licensor from requiring his licensee to sell products produced under the license agreement exclusively back to the licensor. Such a provision would similarly be prohibited under the U.S. antitrust laws as a form of a "tie-in" or a tying clause. Sometimes, however, *the licensee* desires to have an agreement with the licensor that the licensor will purchase all of the licensee's production, and then the provision is considered to be for the mutual benefit of the licensor and licensee. Presumably, such an arrangement, when voluntary on the part of the licensee would still be legal in Mexico, even under the new law.

Clause X prohibits the licensor from requiring the licensee to permanently employ personnel selected by the licensor. Such a provision in the license agreement in the United States would also be illegal and therefore would seem to be unobjectionable to licensors.

Clause XI prohibits:

- (1) a licensor from limiting his licensee's volume of production;
- (2) a licensor from imposing resale prices on the licensee's products; and
- (3) a licensor from imposing a fixed price on his licensee to be charged for licensed products.

The last two of these prohibitions in Clause XI are clearly illegal in the United States and therefore should be acceptable to U.S. licensors.

With respect to the first prohibition, in the U.S. today, it is probably a violation of the antitrust laws to restrict the volume of product that a licensee can make under a process patent, but it is probably still legal in the United States for a licensor to restrict the volume of product that a licensee can make under a product patent, so long as the restriction is otherwise reasonable with respect to scope and duration. The new Mexican law is thus apparently more strict than U.S. law with respect to restrictions on volume of production, and U.S. licensors may be somewhat unhappy with this increased restriction.

Clause XII prohibits the licensor from requiring the licensee to execute an exclusive sales contract or exclusive representation contracts (distributorships), with the licensor. Such contracts would be legal in the United States if they were *voluntarily* entered into by the licensee. If the licensor forces or absolutely requires the licensee to enter into such contracts, then they are illegal in the United States as a form of tying

clause. If such contracts would still be permitted under the Mexican law when voluntary with the licensee, then I do not believe licensors would object to this provision of the Mexican law.

Clause XIII prohibits agreements of more than ten (10) years duration. Although there is no comparable provision under U.S. antitrust law, as a practical matter, most U.S. licensors are writing their agreements for terms of less than ten (10) years. A frequent term for an agreement in the U.S. today is five (5) years with an option granted to the licensee to renew for another five (5) years. This clause should thus be generally acceptable to licensors, but there are times when it might make good sense for an agreement to last for more than ten (10) years. This prohibition therefore seems somewhat arbitrary and one that licensors may find psychologically disturbing.

The last clause, Clause XIV of Article 7, provides that agreements will not be registered, if they must be submitted to foreign courts or interpreted under a law foreign to Mexico. The effect of this clause is to require that agreements transferring technology into Mexico will be interpreted under Mexican law.

As a practical matter, this is usually what happens, even if the agreement provides otherwise. If the licensor is compelled to enforce the agreement against the licensee, the licensor undoubtedly will have to bring the litigation to the courts of Mexico, and even if the agreement provides that it will be construed under the law of a foreign country, the tendency of the Mexican courts is to apply Mexican law.

It is often difficult to establish what the foreign law is, when the dispute is in another national court, and it may require the use of expensive experts by both parties. Frequently, such experts disagree and are in conflict as to what the law of the foreign jurisdiction is. Accordingly, it is my feeling that licensors would be just about as well off in having their agreements construed under the laws of Mexico as required by Clause XIV, as to try to get the Mexican court to enforce the laws of some other foreign jurisdiction.

Finally, licensors are offered encouragement by Article 8 of the new Mexican law. Article 8 provides a window for ameliorating the strictness of the provisions of many of the clauses of Article 7, because Article 8 provides that exceptions can be made to all of the clauses of Article 7 except Clauses I, IV, V, VII, VIII, and XIV.

The possibility of exceptions being granted under the other clauses in the eyes of licensors, removes some of the apparent harshness of the new law.

From what I have said, I think you can now understand that there is a close parallel between what is prohibited in the U.S. under our antitrust laws and what is prohibited under the new Mexican law. I hope that the U.S. licensors will realize the similarities and parallels between the laws of the U.S. and Mexico, as they are now formulated, and that this may lead to a more ready acceptance of the new Mexican law by U.S. licensors, as well as the licensors of other countries.

It is a great pleasure for me to be back in Mexico City and I appreciate the opportunity that making

this talk has given me to return here.
HASTA LUEGO!

**About the Speaker: Marcus B. Finnegan is a member of the firm, Finnegan, Henderson, Farabow and Garrett, Washington, D.C.*

**ENGLISH TRANSLATION OF THE RECENTLY
ENACTED LAW FOR PROMOTING MEXICAN
INVESTMENT AND TO REGULATE
FOREIGN INVESTMENT**

**The New Rules of the Game
Second Part**

Effective from May 8, 1973

(Editor's Note: In Vol. 8 - No. 1 a forerunner of these laws was published. However, this article is so much more specific, that we feel that we are justified in printing it.)

**Chapter I
Concerning Object**

ARTICLE 1. This law is of public interest and one of general compliance in the Republic. Its object is to promote Mexican investment and to control foreign investment to stimulate a fair and balanced development and to consolidate the economic independence of the country.

ARTICLE 2. For the purposes of this law, a foreign investment is considered as that which is performed by:

- I. Foreign juridical persons;
- II. Foreign physical persons;
- III. Foreign economic units without juridical personality; and
- IV. Mexican enterprises in which foreign capital has a mayor participation or those in which foreigners have, through any title whatsoever the power to determine the management of the enterprise.

All foreign investment performed in connection with the capital of the enterprises, for the acquisition of property and in the operations to which this law refers, is subject to the provisions of same.

ARTICLE 3. The foreigners who acquire property of any nature in the Republic of Mexico accept, by that very fact, to be considered as nationals with respect to said property and will agree not to invoke the protection of their own government as regards same, under penalty, if failing to fulfill same, of forfeiting such property acquired to the Nation.

ARTICLE 4. The following activities are reserved exclusively to the State:

- a) Oil and all other hydrocarbons,
- b) Basic petrochemistry.
- c) Exploitation of radioactive minerals and generation of nuclear energy,
- d) Mining in the cases referred to in the pertinent law,

- e) Electricity,
- f) Railroads,
- g) Telegraphic and radiotelegraphic communications, and,
- h) All others items stipulated by specific laws.

The following activities are exclusively reserved to Mexicans or Mexican corporations bearing a foreign exclusion clause:

- a) Radio and Television,
- b) Urban, interurban and federal roads automotive transportation,
- c) National air and maritime transportation,
- d) Forestry exploitation,
- e) Gas distribution, and,
- f) All others stipulated by specific laws or regulation provisions issued by the Federal Executive.

ARTICLE 5. In the activities or enterprises that will be hereinunder indicated, the following capital participations of foreign investment are allowed:

- a) Exploitation and utilization of mineral substances:

The concessions cannot be granted or transferred to foreign physical persons or corporations. In the corporations engaged in this activity, foreign investment may have a maximum participation up to 49% as regards the exploitation and utilization of substances subject to an ordinary concession and up to 34% as regards special concessions for the exploitation of national mining reserves,

- b) Side products of the petrochemical industry; 40%,
- c) Manufacture of automotive vehicle components: 40%, y,
- d) All those prescribed in the specific laws or regulation provisions issued by the Federal Executive.

In cases in which the legal or regulation provisions do not demand a certain percentage, foreign investment can participate in a proportion not to exceed 49% of the capital stock of the enterprises, provided same does not have, through any title whatsoever, the power to determine the management of the enterprise.

The National Commission of Foreign Investment can resolve regarding the increase or reduction of the percentage referred to in the foregoing paragraph, when in accordance with its own judgment it is advisable for the economy of the country and can prescribe the terms in accordance to which the foreign investment shall be accepted in specific cases.

The participation of foreign investment in the administrative bodies of the enterprise cannot exceed its participation in the capital.

When there are laws or regulation provisions for a particular line of activities, foreign investment shall adhere to the percentages and to the terms prescribed by said laws or regulation provisions.

ARTICLE 6. For the purposes of this law, the investment made by foreigners residing in the country as permanent immigrants shall be compared to Mexican investment except when by reason of their activity they are linked to centers of economic decision from abroad.