

Mexico's New Law Affects Licensing

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Concise, current summary of the new Mexico laws that affect licensing of intellectual property

Mexico is a federal republic and has a dual political system.

1. The federal courts deal basically with matters that pertain to federal jurisdictions, such as electricity, communications, sea and air transportation, oil, gas, drugs and commerce, etc.

2. The state or local courts deal with any legal issues not deemed to fall within the federal jurisdiction.

Each separate state in Mexico plus the Federal District (Mexico City) has its own Civil Code as well as its own Code of Civil Procedure. It is considered that a transaction is civil if it does not have as a primary purpose a commercial operation.

The Civil Code for the Federal District is applicable as a federal statute in any case which may be under federal regulation.

Code of Commerce

The Code of Commerce is a federal act.

In cases pertaining to federal jurisdiction, the procedure is regulated by the Federal Code of Civil Procedure and by the Code of Commerce.

If a case affects private interests only a case may be filed in a local state court even if the subject matter is federal, such as commercial transaction. In such case the procedure is regulated by the local code.

The Code of Commerce determines which acts are commercial and subject to its provisions and it may be:

1. From the quality of the person engaging in it (merchant or non-merchant), or
2. From the nature of such action. Any transaction in which one of

the parties is a merchant and the other one is a non-merchant will be deemed to be of commercial nature.

Industrial Property is essentially a commercial action and therefore, anything pertaining to it is regulated by the Code of Commerce and by the specific law.

The procedure, however, depending on the plaintiff's choice, may be regulated by a local or federal code. The Industrial Property Law provides a choice of venue.

If the parties agree, they may submit tacitly or expressly to the jurisdiction of a court and waive the jurisdiction of the court of their own venue.

The preferred procedure, according to the Code of Commerce, is that stipulated by the parties. It may be:

1. A statutory procedure.

2. A conventional procedure agreed upon by the parties to be followed by the court.

3. A conventional procedure agreed upon by the parties in arbitration.

The parties may submit any controversy in arbitration and it may be an integral part of the agreement or in a separate document.

The agreement to submit a controversy to arbitration must be in writing, but it requires no special formality. An exchange of correspondence by any means, by telex, radio, etc. is binding.

Industrial Property Law

The Law for the Development and Protection of Industrial Property was published on 27 June 1989.

This law (hereinafter called IPL) regulates patents, industrial designs, utility models, trademarks, trade-names, industrial secrets, licensing, transfers and assignments, unfair competition, etc.

It is a federal statute and as such it is applicable in the entire Republic of Mexico.

The Procedure in the case of any controversy arising from the IPL, is regulated by the Federal Code of Civil Procedure and by the Federal Code of Criminal Procedure.

Private controversies, at the election of the plaintiff, may be resolved in a federal or in a state court or by arbitrators at both parties' consent.

Copyright Law

The Copyright Law of 21 December 1986 as amended on 31 December 1987 and on 27 July 1991 is a federal statute (hereinafter called CL).

It regulates the rights of authors corresponding to any of the following:

- Literary
- Scientific, technical and legal.
- Musical, with or without lyrics.
- Dance, choreographic and pantomime.
- Pictorial, drawings, engravings and lithographies.
- Sculpture and plastic.
- Architecture.
- Photographic, cinematographic, radio and television.
- Computer programs.
- The title of periodicals, magazines, television and radio programs (in this case the protection is for the first time published plus one year and it requires the payment of an annual fee).
- Other analogous works within the generic types indicated above.

Assignment of Invention and Invention Right

Patent, models, designs, trade-marks and service marks may be assigned under the same regulations as any other personal property.

An assignment may be made by

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agreement between the parties, by corporate merger through a will or other testamentary provisions, etc.

It is important to note that in case of a corporate merger, it is assumed that all trademarks are automatically assigned to the surviving corporation, unless there is a specific agreement to the contrary.

An assignment is valid without need for any government approval or registration, but it may not be effective against third parties unless it is recorded at the Patent and Trademark Office.

Any of the interested parties in an assignment may request the recordal of the same.

Assignment of Trade Name

The assignment of a trademark follows the general rules of the assignment of any other industrial property right, except that it is implicit in the case of the assignment of a corporation or business organization.

Unless the parties provide for otherwise, the assignment of any business entity will imply the assignment of the respective trademark.

Assignment of Copyright

Copyright includes what is known as "moral rights" of the author which are not assignable and they include:

1. The acknowledgment of authorship.

2. The right to oppose any distortion, modification or change of the author's work without his consent.

These rights are not assignable and may only be transferred to legitimate heirs or through a will or other testamentary provisions.

The author may assign, the right to publish, reproduce, perform, exhibit, adapt or in any other way exploit a copyrighted work, through any acceptable legal instrument. In case an assignee may freely reassign such rights.

The assignment of a copyrighted work does not include the right to alter or change the title, form or content.

Any translation, public exhibit, show, arrangement, instrumentalization, dramatization, or change, total or partial requires the author's

consent.

The author himself has, of course, the right to make any changes or adaptations to or alter the work itself.

The author's rights are preferential over those of a performer.

Right to Use Inventions

The owners of a patent, model, design, trade or service mark, trade name or commercial slogan, copyright, etc. or their assignees, or registered licensees have the right to sue infringers.

Unless there is a specific provision reserving the right to sue, any registered licensee will automatically have the right to sue infringers, except in copyright cases.

REQUIREMENTS FOR PATENT AND/OR TRADEMARK LICENSES

Elements

The basic requirement for a patent and/or trademark license is the existence of a valid patent, utility model or industrial design trademark or trade name registration.

A license will not be valid if the respective patent or registration has lapsed for any reason or if the term of the license exceeds the term of validity of a patent, utility model or industrial design registration. This limitation is applicable on trademarks only if the trademark registration is recorded or has lapsed.

The issue of a patent license does not entail the right of the licensee to grant other licenses or to work the invention simultaneously with the licensee.

Deal or Wholes Agreement

In principle, there is no objection for an oral license agreement and it might be valid between the parties. Article 78 of the Code of Commerce provides that no formalities are required. Nevertheless, if the parties wish to register the license agreement at the Patent and Trademark Office in order that the use or working by the licensee should inure to the benefit of the owner then there must be a written agreement.

No Specific Performance

Mexican law does not provide for specific performance. It is impos-

sible to determine in license agreements the reasons or causes of termination and to determine under which circumstances will the licensee discontinue the use of the licensed patent or trademark.

The cancellation of a registered user in a license agreement at the Patent and Trademark Office may only be done:

1. If both parties request it.

2. By reason of registration, cancellation or recall of the trademark or patent.

3. By judicial order.

It is questionable whether a judicial order issued by a foreign court ordering the cancellation of the registration of a license agreement would be accepted by the Mexican PTO. It will be necessary to obtain an enforcement order from a local court.

Liquidated Damages

To avoid protracted litigation, it is advisable to include in license agreements a clause stipulating that at the termination or expiration for any reason of a license agreement, the licensee should discontinue immediately the use of the licensed registrations. But if the licensee should fail to do so within the term stipulated, then the licensee should pay to the licensor, liquidated damages in the form of a sufficiently large sum of money for each day that the licensee should continue to use the licensed registration to serve as a deterrent.

Payment of Royalties in a Foreign Currency

At this time, Mexican currency is fully convertible. A licensee would have no trouble obtaining foreign exchange to remit the necessary payment to the licensor. Nevertheless, it is important that the license agreement should stipulate that the royalty payment or fee should be payable outside of Mexico in the currency that the parties may agree. In the absence of this stipulation, the licensor may comply with the payment terms by paying in pesos in Mexico at the official rate of exchange. It would then be up to the licensor to convert these pesos into other currencies.

Assignability

In the absence of any stipulations to the contrary all license agreements may be freely assignable by both parties. If any of the parties, or both should wish to avoid assignability without the consent from the other party it should be so stipulated.

Obligations Beyond the Life of the Agreement

Any obligation that survives the life of a license agreement is valid, except if it refers to the use of a patent or of a trademark which has been cancelled, or it expired or has been declared void. The licensee may not be liable for the payment of royalties or fees or for any other stipulation concerning an expired patent or trademark.

Registration

License agreements are valid between the parties even if they are not registered with any government agency, but for a patent or trademark license agreement to be valid with regard to third parties it must be recorded in the register file of such trademark or patent licensed at the Patent and Trademark Office.

It is questionable whether payments made by the licensee on an unregistered license agreement for the use of patents or trademarks may be deductible as a legitimate business expense of the licensee.

Any use made by a registered licensee will be equivalent to use made directly by the owner of the patent or trademark.

The registered user may take whatever actions may be necessary to prosecute infringings, but it may be stipulated in the license agreement that such actions may only be taken by the owner and not by the licensee.

TRADE SECRETS AND KNOW-HOW

General Policy

Industrial or trade secrets are protected by Mexican law. The unauthorized disclosure of a trade or industrial secret is considered a crime punishable with incarceration.

Definition

An industrial secret is defined as: Any information capable of industrial application maintained in confidence which may be useful to obtain or to maintain a competitive advantage in the performance of economic activities, regarding which the owner has taken measures to preserve its confidentiality. An industrial secret must be related to the nature-characteristics or properties of a product, to methods of production or processes, to means or forms of distribution of products or to the rendering of services.

Any information in the public domain shall not be considered an industrial secret or that which may be obvious for an expert or any information which must be disclosed by law or court order.

Any confidential information shall not be deemed to be in the public domain if such information is disclosed to any authority for the purposes of obtaining any permits or authorization, etc.

The owner of an industrial secret may transfer or license the same to a third party. The licensee may not transfer it to a third party without authorization.

Hiring Employees of a Competitor

Any person or corporation who hires an employee or engages the services of an advisor, consultant or professional who renders or rendered in the past, his services to a competitor with the purpose of obtaining industrial secrets from the former employer, shall be liable for the payment of damages.

Proof of Secrets

It is required that industrial secrets should be available in documents or in any material media to reproduce same.

CONTROVERSIES RESULTING FROM LICENSE AGREEMENTS

Jurisdiction

The parties may freely agree to which jurisdiction they may submit any controversies resulting from the interpretation or compliance with the agreement. As indicated above, arbitration is acceptable.

Many licensees prefer to subject the agreement to the jurisdiction of the courts or arbitrators of their own country. It is necessary to bear in mind that in order to register a license agreement with the Mexican Patent and Trademark Office, Mexican substantive law is applicable.

Under such circumstances, the court or the domicile of the licensor must apply Mexican substantive law, with the inconceivable that may result.

In the case of arbitrators, the forum of the arbitration is irrelevant.

The court decides, if it is a foreign court, or the arbitrator's award as the case may be, will have to be enforced by a court of the domicile of the defendant. In most litigation cases, regarding licensees, the most frequent cause of litigation is nonpayment of royalties. In that case the judgment must be enforced in the domicile of the licensee or wherever he may have any assets.

Applicable Law

The substantive Mexican law must be applicable if the licensor is to be registered. In the case where both parties are not residents of Mexico, as is often the case where the patent or trademark owner grants a master license with the right to sublicense, then it may be validly argued that the applicable law is that which both parties may choose. In all cases where the licensee is a person or corporation doing business in Mexico, then Mexican law is applicable, but the procedure may be regulated by whatever set of rules the parties may select.

Arbitration

Arbitration is an acceptable form to resolve controversies between the parties in a license agreement.

An arbitration clause may be incorporated as a part of a license agreement or in a separate document.

Arbitration agreements must be for a specific case only. It cannot be validly agreed that all controversies between two parties will be subject to arbitration.

The arbitrators of the procedure to designate them should be speci-

led in the agreement but it may be validly agreed to apply a set of rules.

No arbitrators have been named by the parties and they have not agreed on a procedure to designate them, a judge may be asked to nominate arbitrators as follows:

After the document containing an arbitration clause has been filed in court, the judge shall call to a hearing in which the parties, by mutual consent, will be asked to designate an arbitrator; if the parties do not agree, the judge shall designate a single arbitrator. The award by the court appointed arbitrator shall be binding.

If no terms to conclude an arbitration procedure has been agreed upon by the parties, the arbitrator must issue an award within 60 working days.

During the pendency of the arbitration proceedings, the arbitrator may not be removed except with the unanimous consent of the parties.

The parties may agree on:

1. The number of arbitrators and the form to designate them.

2. The locus of the arbitration procedure.

3. The language of the proceedings. If the forum is in Mexico, the procedure must be in Spanish but other additional languages are acceptable.

4. The appellate procedure but the parties may waive the right to appeal.

5. Applicable substantive law.

Any agreement to prohibit either party to file arguments or to supply arguments shall not be valid. Arbitration is acceptable on appeal.

If the applicable law has not been decided by the parties the arbitrator shall decide which law to apply.

No action may be filed in court during the pendency of an arbitration procedure for the same case.

Arbitration Ends

If the arbitration is terminated by the death of the arbitrator and no one was nominated by the parties to replace the original arbitrator and the same parties do not agree within 30 days to designate another arbitrator:

1. If the arbitrator was appointed

by a court, the same court shall designate a replacement.

2. If the arbitrator excuses himself due to justified cause and the parties do not agree to designate another arbitrator within 30 days, and if the arbitrator was court appointed and he is removed for justified reason, the judge, following the same procedure indicated above, shall appoint a new one.

3. If the arbitrator is challenged for any justified reason, and the arbitrator may no longer act due to having been successfully challenged, no challenge is admissible if he was appointed by mutual prior agreement of the parties.

4. If the arbitrator is nominated or elected to an official position in the administration of justice such as judge, prosecutor, etc. and he will remain in such position for more than three months.

5. Due to expiration of the term to issue a decision, unless the parties agree on an extension.

6. If the parties settle the controversy.

Whenever it is necessary to designate a substitute arbitrator the proceedings shall be stayed.

The arbitrator's award shall be signed by all the arbitrators, but if there are any dissenting arbitrators who refuse to sign it, the signature of the majority of arbitrators shall suffice.

If there should be two arbitrators designated and they disagree, they shall designate a third arbitrator whose decision shall be binding. If they do not agree, they may ask a judge of first instance to appoint the third arbitrator.

Arbitrators may be challenged for the same reasons that a judge could be challenged.

Arbitrators may resolve all incidental matters, but not a counter-suit, unless the parties expressly agreed to it.

The arbitrators may issue an award including the obligation for the party who loses the case to pay damages and attorney's fees but only a regular court may enforce such award.

If any appeal should be entered by any of the parties, the appeal shall be ruled by the stipulations of the parties. If there are no stipula-

tions, the appeal procedure shall be dealt with in the regular appellate procedure.

The enforcement, in Mexico, of any arbitrator's awards issued abroad, shall be regulated by:

1. Any applicable international treaties.

2. By the provisions of the arbitration clause in the respective agreement.

3. By the local (state) Code of Civil Procedure supplemented by the Federal Code of Civil Procedure.

In connection with industrial property rights, the following may not be submitted for arbitration because it is deemed that public policy restricts the jurisdiction exclusively to the administrative and/or judicial authorities.

1. Validity.
2. Scope.
3. Infringement.

The law contains no restrictions on the declarations of ownership and it expressly accepts arbitration in licensing and franchising.

The main attraction of an arbitration procedure is speed.

Arbitration should be made available not only on the grounds of contractual liability but also on validity, scope and infringement in order to determine the payment of damages, cessation of infringement and restraining from future infringement.

Management of Equities

The most common cause of non-compliance with a license agreement is the failure, by the licensee, to pay the royalties or fees due under the agreement.

If the agreement calls for the payment of royalties or fees within Mexico, it is customary other than Mexican pesos, the licensee can comply with the obligation by paying in pesos in Mexico at the current official rate of exchange notwithstanding any provision to the contrary.

If the royalty is stipulated in a currency other than pesos payable outside Mexico, then the licensee must pay in the currency agreed upon.

The applicability of non-Mexican law is not recommended if the licensee has no assets outside Mexico because it will be counter-

productive. The action must be filed in a foreign court and then it must be returned by a local court. Thus it will take twice as long and it will be twice as expensive than if an action for assignment of royalties is filed in Mexico in the first place.

Adapted or Inapplicable Technology

The most usual defense in any action for assignment of royalties is that the technology supplied is inadequate or inapplicable. Moreover, no matter what forum the parties may have agreed upon, the licensee may have a valid action for "output enhancement" in a local court if the licensee tries to enforce a foreign judgment if the technology is inadequate or inapplicable.

FRANCHISES

Under Mexican law, franchises are defined as:

The license to use a trademark including the transfer of technical assistance or know-how which may enable the licensee to manufacture goods or to render technical assistance in a uniform manner and with the operational, commercial, and administrative methods established by the trademark owner, with the purpose of maintaining the quality, prestige and image of the licensed products.

Anyone offering a franchise must disclose to the prospective licensee, before entering into the respective license, all information relating to the franchise's business status,

IMPLIED RIGHTS

Grant's Role

There are no implied rights under a license agreement. The parties must specifically agree on whatever rights or obligations they wish to undertake.

Sell-Back Agreement Not Valid

In an assignment agreement, a clause to sell back to the original owner any industrial property rights conveyed is not valid and it would be unenforceable even if the agreement is regulated in accordance to foreign law in a jurisdiction where such clause would be valid because it would not be acceptable by a Mexican judge in contrast to local public policy.

Employer's Inventions or Improvements

All inventions created by an employee of a company domiciled in Mexico or doing business in Mexico are regulated by the Mexican Labor Code. Employees' rights may not be waived.

If an employee has been hired with the specific purpose of doing research and development, then all inventions created by said employee belong to the employer, but the employee is entitled to special compensation for each invention in addition to the regular salary he or she may have received.

Inventions by employees not hired for that purpose belong to the employer even if the invention was developed on company time and with company resources. The company may be entitled to a refund for

the time and expenses incurred during the research work, but not to the ownership of the invention.

Right is forfeited and is Alien

It is up to the parties to agree about the right to sell and/or alter any technology or know-how transferred.

Even the licensor's stipulated it is important to establish that it will not be liable for any infringement of third party's rights if the technology transferred is altered.

Unless specified, it is assumed that the licensee acquires the technology licensed at the end of the term of the agreement so he would be free to dispose of it freely. The parties may agree however, that at the end of the term of the agreement the licensor's right to use or to dispose of the technology will cease.

Regarding copyright licenses (including software), the licensor has no implied right to events or to alter unless specifically agreed between the parties.

License to use a Patented Article

In the purchase of an article that incorporates industrial or intellectual property rights, a licensee to use the same is implied. Thus, the buyer of package software, would have the right to use it but not to reproduce it or to lease, sell or license it.

In the case of industrial property rights, the purchase of a patented article or of an article that requires the use of a patented process gives the buyer the right of use but not the right to reproduce or to sell the same.