

Mexico's New Law Liberalizes Technology Transfer

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Government is taken out of process, licensors, licensors negotiate without interference by bureaucrats.

The trend toward liberalization of technology transfer in several developing countries of the Americas are causing very important changes in the laws that regulate technology transfer and industrial property of those countries.

For example, Brazil issued an administrative regulation regarding technology transfer on February 23, 1988, with the specific purpose of stimulating the flow of foreign technology into the country. It revoked the Normative Act in connection with the licensing of patents, trademarks and technology, as well as technical assistance agreements.

However, although the requirements under the new regulation are simpler than the Normative Act, the necessity of reaching the agreements before the National Institute of Industrial Property (INPI) apparently remains. The new Act, however, provides for much less interference by the Brazilian Government in the reaching of agreements, which should now be the objective of private negotiations between the parties.

Also, it must not be forgotten that the industrial property law has not been amended in Brazil. This means that the provisions of the law that state that a licensor should not impose restrictions or limitations on an industrialization, commercialization or importation, must still be observed. Although a new industrial property code, which apparently no longer contains said limitations, is being analyzed by the Brazilian Congress, it remains to be seen how the INPI will handle technology transfer or patent licensing agreements under said new code.

INPI Issues

In practice, INPI has retained control of claims entering its confidentiality and of claims restricting the use of the technology. Therefore, patentation, confidentiality and inalienability remain the object of deep interference by the Brazilian Government through INPI. Therefore, it may be concluded that, although the trend in Brazil is toward the liberalization of the technology transfer process, in practice the basic aspects restricting licensing of technology to Brazil will remain valid and some substantial obstacles occur in the legislation in which the INPI has always grounded its restricting practice.

The situation will probably be considerably improved if the new industrial property law is approved by the Brazilian Congress with provisions that increase the fields of patentability including product and biotechnology protection. There are unfortunately very important loopholes in the draft now under consideration, since *inter alia*, no satisfactory protection of trade secrets is being contemplated. Also, unconscionably weak conditions for the grant of compulsory licenses of copyrighted patents remain in the new draft. This incorporates a further objectionable factor in the technology transfer process, because patent holders will be advised to introduce new patentable technology in Brazil, because of the lack of taking a compulsory licensing of their technology to competitors. These facts render it practically impossible to predict the extent to which the technology transfer process will be liberalized in Brazil.

► Argentina ►

In Argentina, very important developments also have occurred.

Attempts in liberalizing technology transfer may be traced back to 1980, when the technology transfer law was amended to remove the drastic provision that considered unenforceable agreements as invalid. However, lack of recordation of agreements prevented education of exporters before tax authorities. The agreements still had to be filed, but only for informative purposes. The agreements between parent companies and their subsidiaries, however, were still subject to approval by the Argentinean Government through the National Institute of Industrial Technology (INTI), with the exception of the latter type of agreement, it may be concluded that technology transfer between foreign companies and national companies is reasonably free of government interference.

Also, a new industrial property law is being drafted in Argentina. It contains provisions of extended patentability including product and biotechnology protection. The new patent law draft considers distribution and commercialization of the product in any one of the countries with which Argentina has custom agreements, common markets or free trade agreements as suitable exceptions of patents, which is a provision that reduces the possibility of granting compulsory licenses *in rebus sic stantibus*. However, no adequate protection of trade secrets is provided for in the new draft. This is unsatisfactory, it discourages the transfer of unpatented and new technologies to Argentinean companies.

Although the technology transfer

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process in Argentina has been liberalized more than in Brazil, there remain problems to be resolved before it can be considered satisfactory.

A reasonable liberalization of the technology transfer process took place in Venezuela by amending the technology transfer law in January 1980. It represents a completely new approach. Absolute contractual freedom to the royalties is granted, except when exceeding 3% of net sales on a parent-subsidiary relationship. Any figure above said limit is subject to approval by the Superintendency of Foreign Investments (SIFIA).

Although all contracts still must be recorded with SIFIA, registration generally is only for statistical and informative purposes. Most of the traditional restrictive clauses were cancelled by the amendment, and the only limitation on confidentiality is that the obligation cannot exceed, after termination of the agreement, a duration equal to that of the agreement itself.

A new industrial property law is under consideration by the Venezuelan Congress. It extends patentability to all fields of science, but unfortunately it excludes product protection in the fields of pharmaceuticals, foodstuffs and agrochemicals. Only product-by-process claims are acceptable. The burden of the proof of infringement, however, has been reversed to be charged to the infringer, which renders enforceability of such claims much easier. Priority is being granted to different groups, however, to force the Congress to accept product protection in said fields, although at present nothing can be anticipated.

There remains, however, inadequate protection of trade secrets. This still is a serious obstacle to encouraging technology transfer to Venezuelan companies.

The situation in Chile is similar to that in Argentina, neither giving the third in the most important Latin American countries in terms of the liberalization of the technology transfer process. This is being accomplished by weakening technology transfer laws and imposing patent protection provided in the industrial property law. The problem

of trade secret protection, however, remains practically unaltered in all of these Latin American countries.

In comparison, the technology transfer process in Mexico is more complex and satisfactory. For this reason, I shall describe it in more detail.

◆ Drafts: Changes ◆

Continuing on the first day after President Carlos Salinas de Gortari took office (December 1988), extremely important changes in the economic and political positions adopted by previous government administrations in Mexico took place. A great variety of very important measures have been adopted. The objective is to incorporate the economic activities of Mexico within the international environment, and abandon the stringent nationalistic point of view of prior Administrations. Rapid development of the Mexican economy is sought within the ever-growing globalization of economy.

Of special interest are measures to improve the statutory framework under which technology licensing will be handled. They no doubt will be used by investors and licensors of technology into and out of Mexico as a reasonable relief from the strict limitations created by previous technology transfer legislation. These regulations involved intervention of the so-called national Registry of Technology Transfer (INRTT) in favor of Mexican licensors and against national foreign licensors of technology.

The paternalistic and "bottlenecking" attitude of the Mexican Congress prior to the Regulations of the Technology Transfer Law, published January 7 and in force as of January 31, 1980 (see second), and the Law on the Development and Protection of Industrial Property, published June 27 and in force as of June 28, 1991 (which abrogated the prior Transfer of Technology Law and all Regulations on the same), caused a remarkable reluctance among important international companies to license their most advanced technology to Mexican industry and commerce. The consequence was a widening of the tradi-

tional "technology gap" between Mexico and the highly industrialized countries of the world.

Considering that Mexico, like the majority of developing countries, has traditionally suffered from many deficiencies that are serious obstacles to a free flow of modern technology as well as serious drawbacks to attain a satisfactory level of research and development, it is clear that without a reasonably good legal framework, the situation would worsen and modernization of the country would be unsustainable. Among the deficiencies are:

1. Inefficient integration of the input-output matrix, which has caused important bottlenecks in production lines and research efforts of industrial sectors of Mexico.
2. Inadequate supply of raw materials.
3. Reluctance of foreign companies to transfer their latest technology for fear of competition in common markets.
4. Inefficient attraction of foreign investments.
5. Inadequate protection of industrial property rights.
6. Excessive restrictions to licensing of technology.
7. More clearly understood the liberalization of the technology transfer process in Mexico, it is useful to briefly review the technology transfer history.

◆ Critical Planning ◆

In the 1940s, the Mexican Government instituted what may be properly qualified as a centrally-planned economic system. It was inevitable that the relatively small area of agricultural land (about 7% of the total surface area of Mexico) was insufficient to maintain an efficient agricultural economy. Attention was directed to development of the industrial sector at the expense of the remaining economic activities.

A policy of imports substitution was adopted. Its consequences were given to all new industries, the installation of which was centrally planned, particularly during the 1950s. To encourage Mexican industry, the Government established a strict control to avoid import of goods that might adversely compete

with the incipient industrialization of Mexico.

This situation prevailed until the early 1960s. The Mexican industry grew at an astounding rate. The growth was only quantitative. The qualitative aspects were not taken care of, and a highly inefficient industry was created in Mexico. It was able to sustain only because the Mexican Government protected it through a closed market. The result was of low quality and high price, absolutely unable to compete in the international market.

During the late 1960s, some conservative industrialists realized that only with the use of foreign technology could the Mexican industry improve its efficiency. This resulted in relatively strong trends to acquire foreign technology. The lack of experience of the Mexican parties engaged in licensing resulted in a highly objectionable situation. Large amounts of absolute foreign technology were transferred to Mexico under conditions extremely favorable to foreign licensors.

This situation caused the Mexican Government to enact the first technology transfer law in 1972. Its sole purpose was to control the technology licensing agreements to prevent abuses by technology licensors against the Mexican licensees, who obviously were not trained to negotiate technology licensing, given the excessively protective conditions under which they had been operating for 30 years.

Briefly, the law, named the "Law on the Record of the Transfer of Technology and the Use and Exploitation of Patents and Trade-marks," was intended to exercise a strict control on the legal standing of license agreements, primarily between foreign licensors and Mexican licensees. It provided that all agreements should be registered. It recorded below a so-called "National Registry of Technology Transfer" (NRTT), in order for them to be considered valid and enforceable. This law introduced the traditional restrictions, in connection with equity payments, confidentiality provisions, use of the technology, etc.

Although the law accomplished its main goals of avoiding abuses

abuses from foreign licensors, and in a way strengthened the negotiating potential of Mexican licensees, it did not result in the desired reduction of costs incurred by Mexican licensees. Benefits authorized by the NRTT, which were customarily reduced to an unreasonable level by the NRTT, regardless of the agreed upon price already accepted by licensee and licensor, often were unacceptable to licensees. The licensee was placed in the difficult position of having to elect between not being able to acquire the desired technology, or paying the exorbitant, usually agreed upon between the parties, regardless of what was authorized by the NRTT.

Obviously, Mexican licensees usually decided to pay rather than abandon these projects. This situation was maintained during the 1970s and the early 1980s.

• Cost Increases •

The cost of technology for Mexican licensees increased substantially, because of the impossibility of collecting such payments as expenses for their tax liabilities. Therefore, much of the "surplus" royalties were paid to licensors through the execution of additional license agreements involving the purchase of computer software technology and of licenses involving the use of trademarks or of copyrighted material, which agreements were not subject to compulsory recording by the Bureau of Technology Law.

This situation was of course detected by the Mexican Government, which decided to amend the 1972 law. A new law was published and entered into force in 1982.

The new law, called the "Law on the Control and Record of the Transfer of Technology and the Use and Exploitation of Patents and Trade-marks," was designed to close the gaps in the 1972 law. That means it preserves the regulatory and administrative approach of the previous law, by maintaining restrictive provisions and adding more sensitive provisions. The gaps of the 1972 law were closed by stating that all agreements entering in trademarks, computer software and

copyrights were also to be considered under the compulsory recording provision.

Notable regulations to the 1982 law were issued on November 26, 1982, which clarified details of the way in which the NRTT was to apply the provisions of the law, but without changing the strictly regulatory spirit.

Experience gained through the application of the 1982 law, together with (a) the liberalization of the Mexican economy by the inclusion of Mexico within the General Agreement on Trade and Tariffs (GATT), (b) the issuance of more liberal regulations on foreign investment that permitted foreign companies to hold majority equity interest in Mexican companies in many fields, and to considering the rather important lack of adequate protection of industrial property rights and trade secrets, which forced the U.S. government to include Mexico in the so-called "301 Priority Watch List" of countries where trade restrictions existed for U.S. companies, induced the Mexican Government to issue remarkably liberal regulations to the 1982 technology transfer law. These were published on January 9, 1983 and effective the next day. The government also issued a so-called "Program of Modernization of Industry and Foreign Trade 1980-1984," which contained a commitment of the Mexican Government to enact a law for adequately protecting industrial property rights and trade secrets. In response, the U.S. Government took Mexico out of the "301 Priority Watch List." The result was immediate trading advantages between the two countries.

It is important to recognize that the Technology Transfer Law applied to both suppliers and acquirers (licensors and licensees), whether Mexican or foreign. Mexican businessmen have strongly opposed having the government "bypassing" them by sitting in as a third party on licensing negotiations. Foreign businessmen were reluctant to comply with the restrictive terms and conditions that the NRTT would approve, either they had to design elaborate contractual agreements agreements

agreements, or simply large licensing their technology to Mexico if a profitable or secure (in the sense of consistency) terms deal could not be obtained.

Finally, it was recognized that the NRTT authorities had to write a directive on deciding what contract terms were acceptable to Mexico and would approve only those that fit their criteria of the moment. The ease or difficulty of obtaining the necessary approval for registration of an agreement had varied and varied with the perceived strength of the Mexican economy, having thus rendered the process of technology licensing a very uncertain one.

The 1980 regulations were issued to try to improve the situation caused by the highly restrictive conditions imposed by the 1980 law and the 1982 regulations. They together with (a) insufficient protection of patents and trade secrets, (b) existing conditions of Mexican capital outflow, (c) unattractive foreign investment, (d) defective supply of certain raw materials, (e) absence of efficient distribution systems for computers, and (f) withdrawal of GNP's General System of Preferences by the U.S. Government in view of the inclusion of Mexico within the so-called "301 priority list" of the Trade and Sanit Law 1980 of the U.S. placed insurmountable obstacles to the inflow of modern technology into Mexico.

The 1980 regulations are an important contribution of the Mexican Government to encourage the licensing of technology from foreign companies or individuals — companies and medium-size entities that were not planning to invest in Mexico through a joint venture at the time, and also in the case of large entities that were planning to invest in the Eastern European countries and were only able to license technology without investments to Mexico.

The said regulations minimized the discretionary power of NRTT officials. They also introduced relatively fixed rules that no longer depended on the personality or opinion of the individual in charge. Most important, they eliminated the "budding" spirit of the law and

previous regulations, offering a framework of judicial and technical security by allowing the parties to negotiate without the intervention and ultimate decision of the government.

The 1980 regulations created a large exception for the cases for nonacceptability outlined in the technology transfer law. They provided that the NRTT could determine the situations that could be subject to exception with regard to the clauses for nonacceptability and therefore would proceed with the records of the respective agreements, when any one of the following conditions were met:

1. It will generate ongoing employment.
2. It will improve technical skills of human resources.
3. It will provide access to new exportation markets.
4. It will allow new products to be manufactured in Mexico, especially those that substitute imports.
5. It will improve the balance of payments (foreign currency balance).
6. It will cut unit production costs (at constant value of the Mexican currency).
7. It will develop national supplies.
8. It will utilize nonpolluting technologies.
9. It will provide new or better R&D within the productive entities or within the Mexican research institutes or centers listed thereto.

The acquiescence of the technology was supposed to file an affidavit before the NRTT stating that it was its desire to execute the agreement in whatever terms it had been proposed for registration, and that the agreement was intended to bring about any one of the above-stated beneficial conditions.

If the above affidavit was filed, the 1980 regulations in most circumstances permitted the scope of the agreement and the level of equity payments to be negotiated freely between the parties, without governmental intervention.

■ Discretionary Powers ■

It is clear that the new regulations practically remove the discretionary

powers of the NRTT. These provided the authorities to decide when a professional clause of an agreement could or could not be subject to exception as to the application of the causes for nonacceptability. The NRTT could no longer refuse to register an agreement containing such clause, if the licensee or acquirer displaced under such that it was its will to accept said clause and that the utilization of the technology would bring about at least one of the beneficial situations described above.

In line with the commitments made by the Mexican Government in the "Program of Modernization of Industry and Foreign Trade 1980-1984" the industrial property law was amended in Mexico through its publication on June 23, 1981. Its effective date was June 28, 1981. This law incorporates provisions that will provide a legal framework for encouraging technology transfer. It provides for:

1. The derogation of the Transfer of Technology Law and all of its Regulations, leaving the licensing of technology to be decided only by the parties involved.
2. Inclusion of a special chapter for protection and enforcement of trade secrets. Although not perfect, it certainly enables the holder of said trade secrets to initiate the same against any type of misappropriation. The only exception is trade secrets that are not contained in a suitable document or electronic support.
3. Protection for products in chemical, pharmaceutical, food industry, agrochemicals and most biotechnological areas. There are a few exceptions, such as genetic material and genetically-engineered animals or plants.
4. The practical impossibility of obtaining compulsory licenses on patents, due to the fact that importation of the patented goods is season enough to prevent the grant of compulsory licenses.

Likewise, technology transfer in Mexico has been liberalized almost in an absolute manner. There are no restrictive provisions in connection with the terms of a license agreement other than those agreed upon

between the parties to the agreement. There is no intention in any respect by the Mexican Government in the technology negotiation and licensing procedures that may now be freely carried out industrially between the parties to the agreement. There is effective protection of trade secrets, the misappropriation of which is considered as a crime. There is full product protection in the vast majority of the technological areas (pharmaceutical, chemical, agrochemical, food and beverage, alloys, micromechanics and possibly also subatomic parts) if the Regulations are worded as recently proposed to the Mexican Government.

It cannot be concluded, however, that the legal framework for technology transfer in Mexico is in any way perfect. Some shortcomings will exist in the new industrial property law, for example, genetic material (*genes per se*), genetically engineered organisms (other than micromechanics), naturally occurring biological material, inventions related to the living matter of the human body, and surgical, therapeutic and diagnostic methods applicable to the human body or to

animals, are still not patentable. Also, there is still much confusion as to the interpretation of the provisions for protecting progress in biotechnological inventions and as to the interpretation of the provisions that permit the sale of generic goods. Hopefully, these provisions will be duly clarified by the regulations that will be issued shortly and/or by the negotiation of the Free Trade Agreement between the U.S. and Mexico, which may include further amendments to the already enacted industrial property law.

As final conclusions, it may be affirmed that:

1. Out of the most important Latin American countries, Mexico is the one that has liberalized to the greatest extent the transfer of technology process.

2. There are no longer laws or regulations that might permit the inhibition of the Mexican Government in the negotiation and licensing of technology.

3. Even considering the failures of the new Mexican law on industrial property, the improvement of the legal framework under which the technology transfer process is han-

dled may be regarded as a break through.

4. The adequate protection of trade secrets provided for by the new law will permit a more secure transfer of technology to Mexico, even though there are no underlying patents for protecting said technology.

5. Technology available for licensing into Mexico may now be protected by means of strong patents almost in any technological field.

6. The compulsory licensing provisions, although still stated in the new law, have been rendered inoperative in practice, given the fact that importation of the products is considered as working of the patent for said purpose.

7. Some of the most important failures of the new Mexican law on industrial property will be cured by means of the Regulations that are presently under preparation by the Mexican Government.

8. It is to be hoped that the ongoing negotiations of a Free Trade Agreement between the U.S. and Mexico will exert enough pressure to correct the important loopholes that still might remain in the new Mexican law on industrial property after the issuance of the Regulations.