NAFTA Countries in Harmony, Now

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U.S., Canada, Mexico laws generally agree on intellectual property, technology transfer issues; comparisons made

The three countries that are linked by NAFTA—the United States of America, Canada and Mexico — despite the enormous differences existing in their economical, social and political environments, have already harmonized, to a reasonable extent, their laws on industrial property and transfer of technology, as well as their antimonopoly laws. The laws provide a rather homogeneous industrial property and technology transfer system that, with the exception of still existing differences (due to the fact that the United States is the most powerful economy of the world, Canada is a normal first-world country and Mexico is still a developing country) has furnished a reasonably good instrument for protecting and enforcing industrial property rights and trade secrets, and for providing a relatively free technology transfer process without undue intervention of the governments.

Although the three countries are obligated to comply with the provisions of the GATT/TRIPS agreement, it must be noted that the provisions contained in NAFTA are by far more detailed and stringent than those contained in TRIPS. This means that, if the industrial property and technology transfer laws in said countries fully comply with the provisions of NAFTA, they will obviously also fully comply with the provisions of TRIPS. Therefore, only the issues referring to compliance with the provisions of NAFTA will be considered in this paper.

The industrial property statutes of the United States of America have recently undergone important modifications to bring them in conformity with the provisions of NAFTA and GATT/TRIPS, although that country has kept a first-to-invent system rather than the more usual first-to-file system commonly adopted in most countries of the world. However, the corresponding statute was amended in order to extend the possibility of proving the date of conception of an invention, to inventions conceived in any NAFTA country as of January 1, 1994, and eventually in any GATT country as of January 1, 1996.

Other important changes in the patent statutes of the United States refer to: a) the duration of the patent rights, that was changed from the previous 17 years as of grant of the patent, to 20 years as of filing of the patent application, and b) the establishment of an internal priority system by which a provisional application that may not contain a claim can be filed, and internal priority can be claimed for a formal patent application filed within one year as of the filing date of said provisional application. The remainder of the industrial property laws of the United States did not undergo any other change of essence, since they were already in compliance with the provisions of the abovementioned agreements. It is to be noted, however, that no 18 months' publication of a pending patent application still exists, although it is anticipated that such provision for publication of pending applications will be incorporated in the statutes at a later date.

As to trade secret protection, it is to be noted that the same have been for a long time quite efficiently protected and are perfectly enforceable in the USA. Also, the technology transfer and licensing process is not regulated by the government other than by the application of the antimonopoly law. The parties to a license agreement may freely agree on the terms and conditions of the transfer of technology without intervention of the government, with the only condition that such agreements do not constitute a violation of the antimonopoly law of the USA.

Canada, on the other hand, changed its industrial property laws starting back in 1987, mainly in order to transform its first-to-invent to a first-to-file system, to include the one-year grace term for novelty requirements, to introduce the 18 months publication of patent applications, to provide for an examination petition after said publication, to include product patent protection, to reverse the burden of the proof of infringement in process patents, to change the duration of the patent term to 20 years as of filing, and in order to allow registration of service marks, collective marks and certification marks. Therefore, as the industrial property laws of Canada (as modified in 1987) already were nearly in compliance with the provisions of NAFTA, very few additional changes were necessary when the agreement was implemented.

◄ Trade Secrets ►

The Canadian situation as to trade secret protection and enforcement and as to technology licensing is the same as that already described for the USA.

When Mexico adhered to the GATT on July 24, 1986, the situation was quite different from that in the other two NAFTA countries. The industrial property law in force at the time was an extremely defective

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law called "Law on Inventions and Trademarks" enacted on February 11, 1976, under which almost all the most important branches of technology were considered as not being patentable. The law was enacted for the alleged purpose of preventing foreign owners of technology from acquiring exclusivity within the industrial areas of the highest importance to the development of Mexican economy, in order to supposedly permit Mexican investors to freely use the non-patentable inventions in Mexico without having to negotiate a patent license with the owners of patents. Officers of the Mexican government, however, did not realize that this result was unattainable because of the very simple reason that patents do not disclose the know-how and therefore cannot be industrially exploited unless the background know-how is in the possession of the company attempting to economically exploit an invention disclosed in a patent.

The alleged but unattainable expected results were to be achieved by rendering the following types of inventions nonpatentable: alloys of any kind, as well as methods of preparing them; inventions related to nuclear energy and safety; chemical products; pharmaceutical compounds and preparations, as well as methods of preparing them; veterinary compounds and preparations, as well as methods of preparing them; food compositions for humans and animals, as well as methods of preparing them; fertilizers of any kind, as well as methods of preparing same; pesticides of any kinds, including herbicides, insecticides, fungicides, acaricides and the like, as well as methods of preparing them; substances having biological activity of any kind, as well as methods of preparing same; and biotechnological inventions of any kind, including biological and genetic methods and materials.

For some of the above inventions, a very limited and deficient protection could be obtained by means of a so-called "Certificate of Invention" incorporated into the Mexican law in force at the time. It was a protective figure not granting any exclusivity to the certificate holder, but only the right to collect royalties fixed by the Mexican government from any one desiring to exploit the invention.

The following items were protectable in this deficient manner: inventions related to nuclear energy and safety, but only with the previous authorization of the Atomic Energy and Safeguard Commission; methods of preparing pharmaceutical compounds and preparations; methods of preparing veterinary compounds and preparations; methods of preparing food compositions for humans and animals; methods of preparing fertilizers; methods of preparing pesticides including herbicides, insecticides, fungicides and acaricides, and methods of preparing substances having biological activity.

The technology transfer process in Mexico was regulated at the time by an extremely restrictive law enacted on February 11, 1982, under the name "Law on the Control and Recordal of the Transfer of Technology and the Use and Exploitation of Patents and Trademarks." It required the recordal of all license agreements (including patent licenses, design licenses, trademark licenses, know-how licenses, software licenses, copyright licenses, tradename licenses, franchises, and hybrid licenses of any type) for approval by the so-called National Registry of Technology Transfer (NRTT). The conditions that had to be met were of such a nature that the licensing of technology to Mexico became extremely cumbersome. Under the law, a license agreement had no right to be recorded and therefore was considered to be invalid when it contained any one of the following provisions: When their objective was to transfer technology already freely available in Mexico; when the royalty was unduly high or constituted an excessive burden to the Mexican economy; when the licensor was permitted to intervene in the management of the licensee; when grant-back clauses were included; when the research and development activities of the licensee were restricted in any way; when establishing obligations to acquire inputs from a predetermined source; when the exportation of the products was restricted; when forbidding use of complementary technologies; when providing for exclusive sales to the licensor; when forcing the licensee to permanently use personnel designated by the licensor; when restricting the volumes of production of licensee or fixing predetermined sales prices; when forcing licensee to execute exclusive sales or distribution contracts with the licensor; when including excessive terms for the obligations of licensee, including confidentiality (10 years as a maximum); and when the disputes were to be solved under foreign law or by foreign courts.

◄ 'Watch List' ►

In view of the above-described situation, Mexico was included in the so-called "301 Priority Watch List" (1982 Trade and Tariffs Act of the USA) of countries where trade restrictions existed for the United States exporters, with the consequent problems created in the trading operations between Mexico and the United States.

Although NAFTA does not contain express provisions referring to the licensing of technology or intellectual property rights, and although the agreement has not required important changes in the overall environment within which the technology transfer process is carried out in the USA and Canada, the same cannot be said of Mexico, where the unacceptable restrictive laws and regulations for the licensing of technology and intellectual property rights, and the lack of suitable protection for trade secrets, rendered it almost impossible to license modern technology to the industrial, commercial and services sectors of the country.

Therefore, first in preparation for GATT and afterward in preparation for NAFTA, Mexico was forced to make important changes in the legal frame that regulated industrial property, licensing, trade secret protection and foreign investment.

The licensing of technology, therefore, has experienced dramatic changes in Mexico since 1990. The

existing Technology Transfer Law, which was created in 1972 and modified (toward the worse) in 1982 with the purpose of regulating the licensing agreements by allegedly preventing abuses from the part of the licensors, particularly the foreign licensors, was rendered much more flexible by the issuance of certain Regulations that liberalized the licensing of technology to a large extent. The Regulations permitted the recordal of license agreements containing many of the restrictive provisions described above, provided that both parties to the agreement expressly declared to accept the same and provided that the agreement could be considered as beneficial to Mexico by complying with certain conditions in order to improve the technological, economic, labor and exportation conditions of the country.

Although said Regulations almost fully liberalized the technology licensing process, the necessity of recording the license agreements for approval by the government subsisted. Certain conditions had to be complied with by licensors and licensees to obtain said approval, without which the agreements were considered to be invalid. However, the issue of lack of effective protection for trade secrets in Mexico was not solved by the Regulations, thus preserving a rather inadequate environment for licensing technology.

Those drawbacks were fully overcome by the Law on the Promotion and Protection of Industrial Property, enacted on June 27, 1991, and modified on October 1, 1994, under the new name "Industrial Property Law." In some areas it goes beyond the normal limits of a true industrial property law. It was designed as a unified statute for promoting and regulating, not only the traditional protecting figures such as patents, utility models, designs, trademarks, tradenames and slogans, but also trade secrets and licensing agreements including franchises. This new industrial property law, includes a transitional provision that repeals the former Transfer of Technology Law and any and all of its Regulations, as well as the former Law on Inventions and Trademarks.

◄ Safer Process ►

By including a full chapter on trade secrets, the law permits owners of trade secrets to protect and effectively enforce the same in Mexico. The licensing of proprietary information has become a safer process. It is thus contributing to constitute an appropriate environment for the technology transfer process in Mexico.

Under the new Industrial Property Law, licensing agreements need not be registered with a government body, with the exception that those including a patent license or a trademark license may conveniently be recorded before the Mexican Institute of Industrial Property (Patent and Trademark Office) for the purposes of rendering the agreement enforceable against third parties, as well as for enabling patentee or registrant to prove working of the patents or use of the trademarks involved. The working of the patent or the use of the trademark by a recorded licensee inures to the benefit of the licensor, thus preventing the possible grant of compulsory licenses for patents (still in existence in Mexico) or lapsing of the registrations for nonuse of trademarks. Such recordal also renders the licensee capable of legally enforcing the rights of the patent or trademark against infringers, unless otherwise expressly specified in the license agreement.

The only condition that such patent or trademark licenses must satisfy, in order to be recorded, is that they must not contain clauses which by the applicable law for resolving any controversy is a law other than Mexican law, although instead an arbitration clause is perfectly acceptable. It may therefore be concluded that license agreements can be negotiated and implemented in Mexico virtually without "babysitting" action by the government.

Licensing in Mexico, the USA and Canada, therefore, is a process that may be regarded as entirely free and negotiable between the parties to the agreement, without intervention of the governments. The commercial operations derived from the license agreements, however, must not violate the provisions of the respective antimonopoly laws.

In Mexico, the antimonopoly law, called "Federal Law on Economic Competition," was published on December 24, 1992, and entered into force on September 8, 1993. It affects licensing only because it contains certain provisions of the antimonopoly laws of the U.S. and Canada having to do with the express prohibition of the so-called monopolistic practices. These are business practices that tend to decrease, damage or prevent free competition in the manufacture, processing, distribution and commercialization of goods or services.

It must be stressed, however, that the Constitution of Mexico expressly considers that the above practices, when derived from temporary privileges granted to authors or artists for the production of their works and to inventors for the exclusive use of their inventions, will not be regarded as monopolistic practices. Therefore, licensing within the fields of copyrights, patents, utility models and designs, is not subject to compliance with the provisions of the antimonopoly law in Mexico, at least for the time of duration of said intellectual property rights.

License agreements exclusively referring to the transfer of know-how, trade secrets and other proprietary information, without involving protected intellectual property rights, as well as hybrid licenses, can be challenged with more or less difficulty as to their validity, if they do not comply with the provisions of said antimonopoly law. This is the only restrictive statute still in existence in Mexico to somehow regulate the process of licensing. But it must be stressed that antimonopoly provisions are commonplace throughout the world, including the three signatory countries of NAFTA.

As to the provisions of the respective industrial property laws of the NAFTA countries, it must be stressed that the corresponding Mexican law still contains a few express provisions of nonpatentability that

were rendered permissible by corresponding provisions of NAFTA, as follows:

1. Essentially biological processes for the production, reproduction and propagation of plants and animals. (Article 1709, paragraph 3(c) of NAFTA.) It must be stressed, however, that this non-patentability provision does not apply to genetic processes.

2. Biological and genetic materials as they are found in nature. (Article 1709, paragraph 2 of NAFTA.) It is to be noted that this non-patentability provision does not include said materials when the same derive from processes involving human activity. However, in some instances it may be anticipated that objections based on the inherency principle may be faced.

3. Animal races. (Article 1709, paragraph 3(b) of NAFTA.) It is to be anticipated that transgenic animals will not be considered to fall within this non-patentability provision.

4. The human body and the living parts constituting the same. (Article 1709, paragraph 2 of NAFTA.)

5. Plant varieties. (Article 1709, paragraph 3(b) of NAFTA.) It must be noted, however, that a new law on breeders' rights has been already prepared by the Mexican authorities to be shortly sent to Congress and that a new office depending from the Ministry of Agriculture will be formed in order to prosecute applications for breeders' rights. The Mexican Industrial Property Institute is presently receiving all applications referring to breeders' rights and will pass them with the preservation of the filing date to said other office for prosecution and grant.

6. Surgical, therapeutic and diagnosis methods applicable to the human body or to animals. (Article 1709, paragraph 3(c) of NAFTA.) In connection with this item, this is partially solved in view of the fact that the new uses, including second uses of compounds for the preparation of therapeutic or diagnosis compositions are now patentable.

Under the new patent law of Mexico, however, with the above exceptions of inventions that are considered as non-patentable, all other types of inventions are perfectly patentable. The law includes provisions to provide a first-to-file system, to include the one-year grace term for novelty requirements, to introduce the 18 months publication of patent applications, to provide for an examination petition after said publication, to include product patent protection, to reverse the burden of the proof of infringement in process patents, and to change the duration of the patent term to 20 years as of filing.

Summarizing the above, it may be concluded that the licensing environment in the NAFTA countries is as follows:

1. No restrictive laws on the transfer of technology exist at the present time in the three countries that are parties to the NAFTA, other than the antimonopoly laws of each country.

2. In Mexico, however, pure patent or trademark license agreements in practically every instance, will not be subject to the restrictive provisions of the antimonopoly law, at least for the duration of said rights.

3. In the three NAFTA countries, licensing of know-how and other proprietary information is an entirely free process that may be negotiated and agreed upon by the parties to the license in any field, without any intervention of the respective governments.

4. License agreements of any kind will be regarded as perfectly valid and enforceable against any one of the parties to the agreement, without need of recording the same before any authority of the respective countries.

5. Only when a license agreement involving a patent or a trademark is to be enforced against a third party in Mexico, said agreement must be recorded before the Mexican Institute of Industrial Property, the condition for recordal being that the disputes are to be settled under Mexican law or through international arbitration procedures.

6. In order to provide proof of

NATIONAL COMPARISONS

Concept	USA	CAN	MEX
First-to-Invent	Yes	No	No
First-to-File	No	Yes	Yes
Availability of Proof of Conception Date	Yes	Yes	Yes
Duration 20 Years Upon Grant	Yes	Yes	Yes
Internal Priority System	Yes	No	No
18 Months Publication of Application	No	Yes	Yes
Express Examination Petition	No	Yes	No
One-Year Grace Term for Novelty Preservation	Yes	Yes	Yes
Absolute Novelty	Yes	Yes	Yes
Non-Obviousness	Yes	Yes	Yes
Utility	Yes	Yes	Yes
Enablement	Yes	Yes	Yes
Inherency Provisions	Yes	Yes	Yes
Product Protection	Yes	Yes	Yes
Therapeutic, Surgical and Diagnosis Methods	Yes	Yes	No
Second Uses of Compounds	Yes	No	Yes
Transgenic Animals and Plants	Yes	No	Yes
Genetic Methods and Materials	Yes	Yes	Yes
Reversal of Proof in Process Patents	No	Yes	Yes
Trade Secret Protection and Enforcement	Yes	Yes	Yes
Compulsory Registration of Licenses	No	No	No
Free Negotiation of Technology Transfer	Yes	Yes	Yes
Antimonopoly Provisions for Licensing	Yes	Yes	Yes

Table 1

working of the patents or of use of the trademarks involved in a license agreement, said license should preferably be recorded before the corresponding authority.

7. The industrial property laws of the three NAFTA countries provide a suitable legal frame for protecting almost all types of inventions in any technical field, with only a few exceptions that are permitted by the NAFTA itself.

8. Although the U.S. maintains a first-to-invent system and Canada and Mexico have a first-to-file system, the law of the U.S. has been amended in accordance with the NAFTA and also with the TRIPS provisions, in order to recognize the date of conception of an invention when said conception was made in a NAFTA (and eventually in a GATT) country and not only in the U.S.

9. The three NAFTA countries grant full protection for product patents in the field of chemistry, pharmacy and biotechnology.

10. Effective trade secret protection and enforcement are also available under the respective laws of the three NAFTA countries.

11. The industrial property systems of the three NAFTA countries have been suitably harmonized, and the only differences existing among the same are as illustrated in Table 1.