

# NAFTA: Little Protection For Technology

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*High-technology businesses do not get protection they need; provisions in act appear to be inadequate*

The implementation of the North American Free Trade Agreement (NAFTA) on January 1, 1994 opens Mexico to an unprecedented degree for U.S. and Canadian businesses. Many industries will feel the varied effects of this historic joining of diverse neighboring economies, but the United States' high-technology sectors are already being touted as among the biggest winners of the new North American economy. The immediate elimination of most "high-tech" duties, and the relatively short five-year phase-out period for the preponderance of the remaining tariffs in these sectors combined with "national treatment" in most government procurement and conveniently gerry-rigged rules of origin, will serve to assure increased sales and production of high-technology products in the NAFTA countries. Nonetheless, business executives and their counsel should be well apprised of the realities of conducting high-technology business in Mexico.

Of course, U.S. business executives have been aware for decades of some of the traditional difficulties of doing business in Latin America. Restrictive foreign investment, intrusive technology transfer rules, and weak intellectual property protections were the hallmark government policies in Mexico and most of Latin America in the 1970s and into the 1980s. That history stands in contrast to the bold Mexican economic reforms that were reaffirmed in the NAFTA.

The openness and encouragement of trade and foreign investment as well as a sincere commitment to the protection of intellectual

property rights has put Mexico in the vanguard of economic reform in the developing world. At the same time, the radical nature of such change has a tendency to lead one to believe that the new policies achieve "world-class" or "developed-world" standards. Such misconceptions can be bolstered by the self-congratulatory rhetoric of U.S. trade negotiators, Mexican government officials, and the superficial analyses of commentators. A frank and reasoned assessment, however, reveals that real differences in the practice of intellectual property protection remain a concern for high-technology companies that wish to operate in Mexico.

Mexico's 1991 Industrial Property Law signaled a dramatic advance over the previous Inventions and Trademarks Law of 1976. Patents were permitted in previously unpatentable areas, patent term was extended, compulsory licenses were restrained, trade secrets were addressed, and the intrusive restrictions of the Technology Transfer Law were abolished. Nonetheless, the Mexican government insisted on language that restricts the patentability of computer software and definitions of patentable biotechnology inventions that are virtually indecipherable. Such issues were somewhat addressed in the August 2, 1994, Modifications to the 1991 Industrial Property Law, which further reduced subject matter exclusions, more precisely defined biotech patentability, reversed the burden of proof in process patent cases, and perhaps improved enforcement mechanisms and procedures, including an attempt to implant injunctive relief. But still the biggest concern for companies that wish to defend their intellectual property continues to be the inherent problems of enforcement in an

environment that had not previously placed real value on such rights.

The Mexican government proudly brandishes statistics that demonstrate a dramatic increase in embargoes and official actions against intellectual property infringers during the Salinas administration. Such an increase in enforcement actions is a welcome change, but an analysis of the types of actions is illuminating. Trademark, video, and audiocassette piracy has been targeted and vigorously pursued. There have also been a few high-profile enforcements of the unauthorized duplication of software in corporate environments. Nonetheless, subtler issues of infringement in the technology area have gone unaddressed. The reasons for such selective intellectual property enforcement have to do with the relatively higher degree of sophistication required to determine patent infringement, trade secret misappropriation, and source code plagiarism, and the manner in which the enforcement system is designed.

## ◀ Enforcement Actions ▶

An enforcement action in Mexico may be instituted either through a suit in the courts, or a complaint to either the public prosecutor or the relevant administrative authority (the Mexican Institute of Industrial Property (IMPI), formerly the General Direction of Industrial Property, in the case of patents, trademarks, and arguably, trade secrets, or the General Direction of Copyrights (DGDA) for that subject matter). No matter which avenue is chosen to institute the action, the practice of each of these entities is to seek a formal technical opinion from the

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relevant administrative authority as to whether an infringement is indeed occurring. This is to say that, for practical purposes, any infringement action is initially referred to the IMPI or the DGDA for their preliminary, and highly influential, determination. Mexican officials state that language in the August 2, 1994, Modifications of the 1991 Industrial Property Law should vitiate this paradigm, but a careful reading of the Modifications evidences no such clarity.

Furthermore, injunctive relief as such is only theoretically available. Thus far, in the cases that have demonstrated a form of provisional measure akin to injunctive relief, the preferred instrument has been an embargo, essentially a seizure. While effective, the authorities are loathe to utilize such a mechanism unless the infringement is self evident, such as in trademark and recorded media piracy.

Subtler questions of technological infringement tend to be sent into a veritable black hole awaiting a determination by the administrative authority, which determination is finessed in favor of attempted informal negotiations between the parties because of the authorities' aversion and, quite possibly, inability to decide the issue. This paralysis of the enforcement system generally permits the defendant to continue the allegedly infringing action indefinitely.

Meanwhile, the courts or the prosecutor's office normally abdicate their responsibilities with the excuse that the matter has been sent to the administrative authority for a preliminary technical opinion. In the meantime, the lack of injunctive relief permits the alleged infringer to essentially finance its defense out of illicit profits. A plaintiff's action is severely impacted by this inability to halt the infringement.

Interviews with officials of the administrative authorities indicate that difficult determinations of technology infringement are seldom, if ever, made or issued. Reasons for the lack of determinations range from general under-staffing and backlog to the absence of personnel sufficiently trained in the subject matter. Whatever the reason, the

case enters a state of suspended animation that is hardly conducive to the adequate and expeditious enforcement of intellectual property rights.

#### ◀ Unresponsive Courts ▶

In the few instances that a case has proceeded in the courts, despite the lack of the administrative authority's preliminary determination, judges have demonstrated either an unwillingness to decide because of the complexity of the technological question, or worse, a sense that rights to intangible assets such as intellectual property somehow are not as serious or important as rights to tangibles such as real estate, financial instruments or goods.

Furthermore, the Mexican court system, as in many developing nations, functions far less responsively (even!) than our own judicial system. Interminable procedural delays combined with relative intransparency have given birth to the Mexican expression, widely used by businessmen and lawyers alike, that "a bad settlement is better than a good fight."

The Intellectual Property chapter of the NAFTA contains language that seems to commit the parties to effective enforcement. However, the language is primarily hortatory. The Dispute Mechanism provisions of the NAFTA certainly apply to the intellectual property provisions, but the dispute panels can only be convoked by the insistence of a signatory government, and not by private action.

Thus, in order for problems in intellectual property enforcement to be subjected to the dispute mechanisms of the NAFTA, an aggrieved company must advocate its position with its home country government, and convince that government to proceed under the NAFTA. The practical result will be that only the largest companies or industry associations will have the necessary clout to invoke NAFTA dispute resolution in this area. It is hardly a comforting prospect for small and even mid-sized technology-based companies.

As Mexico adopts legislation to conform to its commitments under

NAFTA to extend intellectual property protection to plant varieties and integrated circuits, the enforcement of such rights can be expected to face similar obstacles. The enforcement system simply has not yet proven to be upgraded along with the substantive rights that it is expected to protect and defend. Judging from experience in representing companies that produce advanced technology products, such uncertain enforcement will limit the attractiveness of doing business in Mexico, despite the impressive commitment to that country's government, as evidenced in its legislation and NAFTA commitments, to initiate adequate protection of intellectual property.

The failings of the Mexican system of intellectual property enforcement are an inheritance of past policies and a lack of understanding of the parameters of "adequate" enforcement. The Mexican administration is making real efforts to educate itself and adapt its system to properly enforce the protection it grants. Nonetheless, a lack of resources and real world experience are hampering that objective. Efforts to educate the Mexican judiciary as to the importance of intellectual property rights and the sincere desire of the Mexican authorities to understand how adequate enforcement works are encouraging, but the fact remains that such efforts take far more time than simply changing the wording of laws.

#### ◀ Improvements ▶

The implementation of more efficient injunctive relief mechanisms and the extraction of the administrative authority from the judicial enforcement process are just some of the possible mechanisms for further improving the system. Proposals have also been made for specialized courts or arbitration panels to upgrade Mexican enforcement. Whatever the solutions might entail, increasingly sophisticated technologies demand sophisticated enforcement mechanisms to prosper. Companies and industries that develop and finance exotic technologies need to understand and advocate policies that will make

the promise of free trade work for them.

Part of the promise of the NAFTA is to expand to cover other countries, particularly in Latin America. Certainly, any new members of the agreement would have to substantially conform to the existing standards of the NAFTA, including the protection of intellectual property. This being so, the issues of faulty enforcement that currently exist in Mexico can be expected to recur. Countries such as Chile, Argentina and Colombia have the same lack of experience in intellectual property protection as Mexico. Latin America's largest nation, Brazil, has yet to ap-

preciate, at least legislatively, that the protection of intellectual property is an important component of its economic infrastructure. The successful conclusion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) provides for minimum standards for intellectual property rights among its members. Nonetheless, the standards comprised in the GATT Agreement are both weaker and more easily deferred than the commitments contained in NAFTA. The preponderance of the GATT member nations also lack a history of serious intellectual property protection.

The issue of nominal protection for intellectual property rights is vital for high-technology business. They are founded, financed, and grown in environments that offer *effective* protection. Merely enacting substantive protection, though a mighty psychological milestone, does not assure that the protection is adequately enforced. Businesses that seek to take their technology to newly opened economies, such as Mexico, should truly understand and plan for the realities of those environments' inherent weaknesses, and indeed advocate improvements in such nascent systems.