

New Criteria Affect Licensing in Mexico

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Summary of general criteria now followed by IMPI in applying law on use and exploitation of patents, trademarks

The purpose of this commentary is to summarize the general criteria followed by the National Registry of Trademark and Technology (NRTT) in applying the Law on Exploitation of Patents and Trademarks. This criteria reflects the experience acquired to date. The criteria should be used merely as a guide, since each case will be determined in the light of the specific circumstances surrounding it at the time.

There have been substantial changes in the evaluation of licensing and transfer of technology agreements in Mexico.

In the past, a greater emphasis was placed on reviewing the amount of royalties, fees or compensation payable to the licensee. Frequently, all negotiations tended to focus into the justification of royalties or compensation. The result was that the NRTT often required a reduction of royalties and other compensation. Under the new guidelines a different approach has been established.

• Best Judge •

The NRTT now considers that the licensee is the best judge of what may be adequate compensation.

On the other hand, the NRTT will be very careful to verify that any patents or trademarks incorporated in a license agreement are effectively maintained in force and have not lapsed or expired.

Ample consideration will be given to the "age" of any technology transferred, to make sure that it is not obsolete or outdated.

Consistency in the treatment of agreements is a new policy objective.

EVALUATION OF LICENSE AGREEMENTS

With respect to evaluating the consideration, the "total flow of payments" during the life of the agreement must be determined. The following will be taken into account in determining the total flow of payments:

1. The amounts stipulated in the agreement for making such payments.
2. The term of the agreement.
3. The payment dates.

In order to determine the acceptability of the consideration, licensing agreements will be compared with other similar agreements of other companies in Mexico and abroad operating in the same line of business.

When the licensee does not have an equity participation in the licensor, the compensation for the use of trademarks (owned by licensor) is negotiable.

As a general rule, no payment of royalties for the use of trademarks owned by the licensor were authorized when the licensor has a majority interest in the licensee's capital. This may now be subject to negotiation.

The NRTT will supervise very closely "the use," lapsing or expiration, and invalidity of patents or certificates of invention, trademarks, etc., recited in an agreement. Payments will be restricted to industrial property rights in force.

Any payment for the use of a patent or a trademark that has not yet been issued, but which has been applied for, will be authorized on condition that the patent or trademark eventually is issued.

All expenses incidental to applications, issues, and renewal of patents by the owner of the patent (licensor).

The licensor must assume full responsibility for any possible infringement of third-party rights when it licenses industrial property rights.

With respect to technical knowledge incorporated in drawings, formulas, specifications, operating manuals, etc., no limitation on its use will be accepted.

No restriction or limitation imposed on the use of unpatented technical information is acceptable after the expiration of the term of an agreement.

• Technical Assistance •

When technical assistance refers to manufacture of several products or services, and a consideration is established on an overall basis, the following conditions must be met:

1. Each of the products and their importance in the operation of the company must be specified.
2. The duration of agreements covering technical assistance must be the term required for adequate assimilation of the knowledge so transferred.

From the point of view of evaluation, technical assistance will be analyzed as follows:

1. The scope or extent of the technical assistance to be furnished.
2. The degree of complexity of the manufacturing process.
3. The "age" of the products and processes relating to the technical assistance.
4. The dynamics of the technical change and the position of the licensing company in the industry sector and field involved.

Regarding business administration and operating services, the

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evaluation made by the NIST) takes the following into account:

1. The sector in which such services are to be used.

2. The requirements of the acquiring company.

3. Type and scope of the services. Payments relating to this type of service are to be evaluated by their economic benefits to the receiving company.

In the following paragraphs we will examine some of the cases in which agreements may be rejected by NIST and some of the applicable exceptions.

An agreement may not be accepted if the purpose of the agreement is the use of trademarks, patents or the transfer of technical knowledge, and the licensee is forced to allow the licensor to handle all or any part of its administration, or if the licensee acquires the right of decision in areas beyond the scope of the agreement.

On the other hand, an agreement may be accepted if:

1. Its specific purpose is to provide administration or operation services that will enable the licensee to develop its activities more efficiently.

2. The technical personnel of the licensee can deal with certain administrative aspects for limited periods, provided such services are deemed essential for an adequate operation of the licensee.

3. If the licensing of trademarks is involved and the administrative assistance is oriented toward maintaining adequate standards of quality.

The supplier of technology may examine the accounting books of the licensee for the sole purpose of ascertaining that the preliminary royalty payments are adequate, provided, however, that this does not imply a permanent control of the licensor's administration.

An agreement may not be accepted if:

1. It provides the obligation to assign the title to, or co-ownership of, any trademarks or patents developed by the licensee during the life of the agreement.

2. It stipulates that licensee is obligated to assign its own trademarks or patents if the agreement

is terminated.

3. The exchange of information on improvements or innovations developed by either party is not mutually beneficial with regard to:
(a) the territory;
(b) the extent of exclusivity;
(c) the payments relating to improvements or innovations.

An agreement may not be accepted if:

1. The licensee is restricted from making his own research and development programs in connection with new products, processes or equipment, etc.

2. If limits are imposed on any improvements in the products or processes granted under license or if the agreement contains research and development by the licensee or if it does not allow the incorporation of improvements in products developed by the licensee. In particular, when no trademarks are involved in the agreement if the licensee cooperates in improvements obtained from third parties in any justifiably limited or conditioned or if the use of proprietary information is limited.

The licensee should be allowed to do his own research and development during or after termination of the agreement.

The licensee may not be bound to return the drawings, specifications, operating manuals, etc., after the termination of the full-term agreement.

The licensee agrees to acquire raw materials only from the licensor or from a source of supply indicated by the licensor.

But an agreement is acceptable if it stipulates that the licensee will supply equipment, tools, parts or raw materials to the licensee at competitive prices prevailing in the international market.

An agreement may not be accepted if:

1. There is a total prohibition for exports;

2. the licensee may not export to certain geographic areas unless the licensee has previously granted exclusive rights to third parties.

3. Minimum sales volumes for exports are established.

4. The licensee is obligated to export only through the licensor.

5. The licensee is obligated to pay a higher royalty on export sales.

6. Licensor's prior authorization is required to lease out any exportation.

An agreement might be accepted even if it contains limitations on exportation if any of the following circumstances are present:

• The licensor has granted exclusive sales rights to third parties in other countries.

• The licensor does not automatically grant rights for exporting to certain areas in accordance with the laws of his own country.

An agreement shall not be accepted if:

1. Third-party technology may not be used in manufacture of licensed products.

2. The manufacture of products other than those licensed is prohibited.

3. The manufacture of products similar to the licensed products is not allowed.

An agreement may be accepted although it contains any of the above mentioned limitations in the following circumstances: if the agreement involves a license to use a trademark owned by the licensor the purpose of the limitation is to prevent the disclosure of technical information of a confidential nature furnished by the licensor to the licensee.

An agreement shall not be signed if the licensee is obligated to sell its entire production to a company designated by the licensor.

But it will be accepted if:

The licensee engages only in the manufacture of intermediate products, parts or components for subsequent processing, assembly or finishing by the licensor and the licensee is the only potential buyer of the intermediate products, or if the obligation to sell its production is established on an exclusive basis for certain export markets.

Another reason an agreement may not be accepted is if the licensee is bound to use as a permanent basis, personnel specified by the licensor. An exception occurs when there are no Mexican technicians who can perform the job and the licensor furnishes personnel

designated by it temporarily and assumes the obligation to train Mexican technicians capable of replacing the personnel so designated.

An agreement may not be registered if:

1. A minimum production level is required.

2. The acquiring company is not permitted to exceed certain specified production levels.

3. At the expiration of the agreement the licensee cannot continue using the technology transferred to it unless the agreement involves the use of patents and those patents are still in force.

4. The licensee is granted the right to fix the price of the products.

An exception to this provision is made if the licensee demonstrates that it has an adequate distribution system or enjoys commercial prestige enabling the licensee to carry out the marketing of the products under the agreement on better terms than the licensee.

In general terms, license agreements should not exceed 10 years.

License agreements should be subject to Mexican law and to the venue of Mexican Courts, but arbitration is acceptable if it is subject to the rules of an internationally recognized institution.

In addition to the foregoing general considerations, trademark owners must take into account that in order to maintain trademark registrations in force, it is necessary to prove use within three years from the date of grant and upon each renewal. Failure to prove use will result in the automatic lapsing of a trademark registration.

Use may only be proved through direct sales by the trademark owner or through sales made by a licensee. In the latter case, in order to have the use made by the licensee count to the benefit of the trademark owner there must be a registered user agreement.

The same must be registered not only in the MEXI but also against each trademark registration at the Mexican Patent and Trademark Office.

Over a number of years, some trademarks are abandoned while

new ones are registered. It is therefore, very important to make sure that any license agreements are brought up-to-date to add newly registered trademarks and to delete those trademarks no longer in use. Failure to properly register a license agreement in regard to those trademarks actually in use may result in the lapsing of trademark rights.

In the case of patents, failure to prove working within three years from the date of grant will make the respective patent available for compulsory licensing.

A patent will lapse two years after the grant of the first compulsory license.

It is of the utmost importance to have a proper license agreement and to register the same in due course.

An unregistered license agreement will have no legal effect whatsoever, and any use made by an unregistered licensee may have adverse consequences.

It is recommended that all license agreements with or without a consideration or royalty should be properly registered.