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Mexico's Intellectual Property Law

I. INTRODUCTION

This panel addresses recent changes in two areas of Mexico's intellectual property law. First, on June 28, 1991, Mexico enacted an entirely new version of its law protecting industrial property. Second, on July 17, 1991, Mexico substantially amended its existing copyright law. The panel discussion provides an overview of the repealed and newly enacted provisions, and offers some projections regarding the new laws' impact on Mexican intellectual property matters.

II. GENERAL OVERVIEW OF THE CHANGES IN MEXICO'S INTELLECTUAL PROPERTY LAW

A. *A Change in Intellectual Property Regimes: The Demise of Mexico's Technology Transfer Law*

JORGE SANTISTEVAN:

For more than ten years, Mexico's transfer of technology legislation ("Technology Transfer Law") dominated the field of intellectual property. This legislation governed any sale of know-how and technical assistance, and the licensing of trademarks, patents, and industrial designs. The Technology Transfer Law subjected any agreement regarding intellectual property, as well as basic and detail engineering, to registration with the transfer of technology authorities.

Registration committed the entire agreement, for example, the actual license or technology transfer, to the law's rather strict requirements. For instance, an agreement could not provide for royalties above a fixed amount as low as three to five percent at times. Furthermore, any agreement was subject to Mexican legislation and adjudication in the Mexican courts. In addition, the technology's supplier mandated the use of certain sources of raw materials in manufacturing the final products, forbidding the use of alternative sources. Due to these restrictions, many important patent holders, along with developers of state-of-the-art technologies, refused to deal with Mexico.

In response to these problems, the Technology Transfer Law was first amended in 1990 and then supplanted by the new law ("Industrial Property Law") on June 28, 1991. The new legislation abrogated the Technology Transfer Law and provided a broader approach to protecting intellectual property.

The Industrial Property Law brings Mexico into line with the

international environment. It offers two especially significant intellectual property rights to companies wishing to do business in Mexico. First, the new law increases the duration of protection for patents, trademarks, trade names, and commercial advertisements, and creates in Mexican law the concept of trade secrets. Second, it establishes an improved set of remedies to licensors and transferrers of technology, trademarks, or patents. Consequently, the 1991 law removes the unfavorable restrictions found in the Technology Transfer Law and creates substantial benefits for intellectual property developers.

B. Franchising Under the Industrial Property Law

Unlike the United States, Mexico does not have any local franchising law. Mexico uses the most basic definition of franchising, which encompasses any agreement regarding the licensing of trademarks or trade names and the supply of technical assistance or know how. This definition is very broad. These types of agreements, together with any licensing of patents or trademarks, must be registered. However, it is still unclear what such registration will entail.

C. Enforcement Provisions Under the Industrial Property Law

The new law provides several methods of enforcement. First, administrative sanctions include closing down the violating company, either temporarily or permanently. Administrative arrest is also possible, which allows for jailing the violator. Under the administrative arrest procedure, an infraction or violation must be demonstrated and a hearing is required. SERCOFI is experienced and knowledgeable in this area, having administered the prior laws. Nonetheless, the Mexican civil law system does not provide for injunctive relief.

The guidance of President Carlos Salinas de Gortari is reflected in the new law. Mexico has undergone significant change since the 1990 amendments to the Technology Transfer Law. Even so, I would not rely on SERCOFI for enforcement, but, rather, on the criminal sanctions. Criminal sanctions are very effective in the absence of injunctive relief. For example, in a few Mexican cases, criminal authorities collected pirated video cassettes and jailed the violators. Whether such aggressive enforcement will occur in a particular case depends largely on the individual state or city, as this is a local function. However, at least from an administrative standpoint, expect to see cooperation in the enforcement of the Technology Transfer Law.

III. THE 1991 AMENDMENTS TO MEXICO'S COPYRIGHT LAW

A. *Overview of the Changes*

CARL MIDDLEHURST:

Mexico recently amended its copyright laws. The amendments represent significant, but not radical, change. The change is not nearly as drastic as that in Mexico's patent and trademark law. The most fundamental copyright issue involves the question of what may be copyrighted under Mexican law.

The most important concept is the distinction between the idea itself and the expression of the idea. Copyright laws cover the expression of the idea rather than the idea itself. The term "expression" signifies that which is printed or stored on computer disk, and is analogous to the painting of an artistic work. A "copyright," then, remains quite distinct from a "patent," which usually represents an industrial method of performing a particular task (i.e., a useful idea).

However, this distinction between expression and idea blurs at times. The development of new computer technology contributes to this problem. First, hardware and software are becoming less distinct themselves. Second, in other instances, hybrids such as "firmware" exist as a combination of the two. Existing Mexican patent law expressly excludes computer software, yet the new amendments to the copyright law dictate coverage for software.

To appreciate the amendments fully, we must consider a few basic provisions of the existing Mexican copyright law. First, works must be expressed in some tangible form, such as on paper or a software diskette (for source code). Second, work must be original. Copyright law's idea of "originality" contrasts with patent law's idea of "novelty." Originality and novelty are not synonymous. An original work need not necessarily be state-of-the-art, only something produced by the author. Third, copyright protection in Mexico endures for fifty years after the death of the author. This rule brings Mexico into line with the international convention.

The new amendments clarify copyright protection for computer software. Previously, a Department of Education administrative ruling provided the sole protection for computer software in Mexico. The computer industry distrusted the administrative decision, fearing that it could be changed far more easily than could an act of the Mexican parliament. As a result, the change in the existing copyright law, together with the abolishment of the transfer of technology rules, represent significant change. Generally, the computer industry has wel-

comed the changes. Many, although not all, companies now look more favorably on selling software in Mexico.

Another important change extended copyright protection to "sound recordings." Although some protection existed before for artistic works, there was some question as to whether copyright law expressly covered sound recordings. The Record Industry Association estimated that "pirate" recordings worth \$100 million were sold in Mexico. The 1991 law should engender a greater trust in the laws to protect sound recordings in Mexico.

B. Copyright Implications of Mexico's Membership in the Universal Copyright and Berne Conventions.

Mexico is a member of the Universal Copyright Convention and the Berne Convention for the Protection of Literary and Artistic Works ("Berne Convention"). These memberships have implications in the software arena as well as in other intellectual property areas. First, Mexico's local laws are modeled on the international conventions to provide conformity between various countries and to allow foreign authors to obtain protection in the local jurisdiction. Second, since Mexico belongs to both the Universal Copyright Convention and the Berne Convention, foreigners are assured protection for their works in Mexico. This is critical in attracting investment, particularly from the United States.

Furthermore, membership in the conventions means that registration is not mandatory for copyright works in Mexico. As in the United States, however, registration is still recommended since it often resolves disputes over ownership of the right and whether an intellectual product is protected by copyright.

An author's moral rights represent an additional issue under the Berne Convention. The concept of moral rights involves a notion that an author's integrity in his or her work cannot be altered by a subsequent holder of the copyright. In the United States, for instance, this issue arises regarding "colorizing" black and white movies, or otherwise changing actual methods of expression in a book, novel, or sound recording. Under the Berne Convention, the author's moral rights receive protection.

C. The Problem of Nonlucrative Copying Under the Industrial Property Law

The United States' doctrine of "fair use" authorizes the limita-

tion of exclusive use rights. This results in some use of uncompensated copies for noncommercial purposes. The computer industry received the new Mexican copyright law without "all out" enthusiasm because of a comparable idea, "nonlucrative" copying. The notion is that if someone copies software, but does not sell or derive a profit from it, such use may be "nonlucrative" and may be allowed. These would be copies that exist aside from any legitimate backup copies. The question then becomes to what extent nonlucrative copying is legal. For example, a company could buy one copy of a program. The industry's fear is that the company would then copy it fifty times and share the program around an entire building. Under the new law, the extent of authorized nonlucrative copying remains quite unclear. The computer industry finds the ill-defined contours of nonlucrative copying unacceptable and it is likely to require clarification of the law.

D. The Necessity of Renegotiating Agreements Formed Under the Superseded Copyright Law

One further issue generating discussion under the amended copyright law regards pre-existing agreements. Many companies are parties to existing agreements with Mexican corporations and have supplied or licensed some technology to them. The answer appears to be renegotiation, if possible. However, no express provision in the amendments mandates renegotiation to account for the previous law's onerous, administrative requirements.

IV. SPECIFIC CHANGES IN MEXICO'S INTELLECTUAL PROPERTY SCHEME AND THE PRESSURES CONTRIBUTING TO THOSE CHANGES

A. Pressures Contributing to Mexico's Changing Its Intellectual Property Law

M. SEAN MCMILLAN:*

Mexico experienced tremendous pressure to bring its technology laws in line with what many industrial countries believe to be the minimum protections for intellectual property. In response, the Industrial Property Law provides a broad, new approach to intellectual property matters, including copyrights, extensions on patents, patent-

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able products, and particular protections for trade secrets and trademarks.

A particular impetus for this change arose in Mexico's inclusion on the 301 watch list for a number of years. President Salinas's submission of legislation in 1990 prompted Mexico's removal from the watch list. Since the Industrial Property Law's enactment, the United States has asserted that Mexican law generally conforms with international standards for protecting industrial property.

B. Overview of the Major Changes Contained in the Industrial Property Law

One major change emerges in the authorization of patent protection for pharmaceutical products. Previously, pharmaceutical products were not patentable in Mexico, although some exceptions still exist. For example, diagnostic or surgical procedures remain unpatentable in Mexico. Moreover, pharmaceutical product patents cannot be enforced against people using them for nonprofit purposes.

This particular issue of unenforceability is not unique to pharmaceutical patents, however. It arises in several contexts, including copyright, patent, and trade secrets. If done for a noncommercial or nonindustrial purpose, a person may generally exploit a patent.

The Industrial Property Law also increases the duration of patents generally to twenty years from fifteen. Regarding pharmaceutical products, a patent can be extended for an additional three years if the holder licenses a majority Mexican-owned, Mexican company, that is, a company organized under Mexican law that is majority owned by Mexicans.

Mexico is a first-to-file country, in contrast to the United States, which follows the first-to-invent rule. In Mexico, the race to the patent office is important. Moreover, as a member of the Patent Cooperation Treaty, Mexico recognizes priority date filing. If a person files, for instance, in the United States on a particular date, as long as that person files within twelve months in Mexico, the Mexican filing date will relate back to the date of the United States filing. Mexico, unlike the United States, but similar to European countries, publishes its patents. That is, after eighteen months from the date of the application or the date of priority, the patent application is published and becomes a matter of public knowledge. At that time, the patent examination process begins. Sometime thereafter, when the patent is granted, it bears the date of the application's filing.

In Mexico, all rights to patents are subject to transfer or license. These can be exclusive or nonexclusive. Generally, unless expressly prohibited, a licensee may maintain an action on a patent to protect it. Mexico retains compulsory licenses, but only in two limited circumstances. First, a compulsory license is granted in a national emergency, as determined by SERCOFI. Second, if a patent remains unworked in Mexico three years after the patent's creation, any person may request that the patent become a compulsory license to be worked on a nonexclusive basis. Under this type of compulsory license, the licensee must pay a royalty.

The new legislation also adds the concept of industrial design, which resembles the United States' "patent design." Moreover, it allows for the patent of utility models. As to duration, the term increases on a utility model to ten years, and on industrial designs from seventeen to fifteen years. These limits are non-extendable.

The new law also addresses trade secrets. The definition of a trade secret resembles that set forth in the Uniform Trade Secret Act. Three principle elements constitute a trade secret: (1) an industrial application; (2) the information is maintained confidentially; and (3) the information provides a competitive or financial advantage. If these elements are not present, no trade secret exists. With one exception for the misappropriation or misuse of a trade secret or patent, the remedy is damages.

As to trademarks, they are registrable in Mexico. A trademark must display some kind of mark to show that it is in fact registered. A circled "R" suffices, as does the "MR" notation, for example. Again, trademarks are first-to-file. However, Mexico's first-to-file rule contains an exception that if the holder used the trademark and filed for registration in another country and a treaty applies to the holder either in the United States or Mexico or both, the holder receives a priority date on the registration's filing.

The new law also contains the concept of a collective trademark. This becomes useful when a group or association wants a trademark. Commercial slogans and phrases can be registered in addition to trade names. A Mexican trade name requires no registration, but does require recordation and publication. Trademarks endure for ten years and are renewable indefinitely, as long as the trademark continues to be used and it can be licensed. Another provision authorizes the related concept of denominations of origin, which designates a product as that of a particular region. For violations of these provisions, civil

suits are permitted in the form of independent actions for damages by the holders of the mark or patent. An administrative process also exists in which SERCOFI enters the enterprise to investigate. The agency possesses fairly broad powers, culminating in the ability to shut the enterprise down.

As to the licensee's duty to maintain the technology as confidential, the Technology Transfer Law mandated a ten-year limit. Under the Industrial Property Law, this limit is removed, except that if a person provides new technology, an additional ten-year extension is possible from the transfer of the new technology. Consequently, a problem arises in that a number of know-how agreements exist in which the confidentiality provision will expire by the terms of the agreement. Renegotiation will be required where possible, given the parties' bargaining power.

C. Practical Concerns with the Mexican Application Process

To this point, Mexico has had little experience using the Industrial Property Law. Historically, Mexico processed applications very quickly, almost to the point of "rubber stamping" them. Under the Industrial Property Law, completed applications in six to eighteen months would not be unreasonable to expect. This is only an estimate, because an increase in applications may occur. People did not often apply for patents in Mexico previously because of the restrictions. Also, if someone applies for a patent in the United States and waits eleven months and twenty-nine days and applies in Mexico on the same day, usually the Mexican patent issues first. An interesting side effect of the time delay is that the United States patent has been watered down, but the Mexican patent is probably the original claim only because of what is state-of-the-art in Mexico.

D. Entities Eligible to Enforce a Patent or License

The general rule remains that any person legally exploiting the patent may enforce that patent in Mexico with recourse to the normal agencies, criminal sanctions, or a civil suit for damages. If a person licenses the patent rights or trademarks in Mexico to a company, that company, unless excluded, may bring its own action.

E. The Industrial Property Law's Projected Benefits

Section 301 of the Free Trade Act invests the United States' executive branch with tremendous powers in negotiating, imposing

countervailing duties, and removing trade advantages. Mexico is a GSP country and, prior to the new legislation, risked losing its GSP status. Moreover, President Salinas of Mexico saw, from the Mexican standpoint, significant advantages in passing laws of this type. In liberalizing the Technology Transfer Law to the extent that he could in 1991, President Salinas intended to attract foreign investment, and thus create jobs in Mexico and foster a climate in which foreign countries, principally the United States, Mexico's largest trading partner, would perceive the opportunity to conduct business freely in Mexico.

V. CULTURAL MISUNDERSTANDINGS

United States businessmen too often go to Mexico with the assumption that business will be conducted as it is in the United States. Instead, they often encounter difficulties because of differences in formalities. These differences can be overcome by adequate legal counsel and being prepared to conduct business in Spanish.

United States businessmen, however, often do not have proper legal counsel when conducting transactions in Mexico. The usual reason for leaving their attorneys behind is the expense. The fact is that it is important for Americans to have an attorney to explain the differences that the attorney is more prepared and better trained to understand.

For Americans doing business abroad, the language difference also poses a more formidable barrier in Mexico than in other foreign countries. The language barrier is the primary problem that foreign businessmen face in Mexico. As a general rule, few Mexicans speak English, less so than in other countries such as France or Germany. Add that problem to the different Mexican legal system, then the business person, even the United States attorney, is in danger of being misled. Therefore, it is very important to have an interpreter.

Moreover, Americans must shed their assumptions that business law in Mexico will be the same as in the United States. One should not assume that United States' legal practices exist in Mexico. This can cause many problems, and the Grupo Industrial Alfa bankruptcy provides an excellent illustrative example.

This costly misconception occurred as a consequence of the financial crisis in Mexico. The conglomerate owed a total foreign debt of \$3 billion which, back then in 1982, equaled the total public and private debt of Costa Rica. Teetering on insolvency, the conglomerate was reorganized after many years of negotiations with its bankers.

Here, perfectly bilingual parties negotiated with each other, some of the top managers in Mexico and the largest banks in America and Japan. Everybody spoke perfect English.

Yet, even in this optimal situation, misconception with the foreign banks still arose and basically clouded their actions. Many of the banks made loans to the holding company instead of to the operating subsidiaries. The banks made very large loans to the holding company on the theory that the assets of the subsidiaries would secure the debt in the event of insolvency.

It was a big surprise to the banks that Mexican law does not pierce the corporate veil. Thus, the banks were stuck with the individual to whom they made the loan. The banks who lent to the holding company received shares of the operating company. After a long, drawn-out legal process, they would have foreclosed on the stock only to find out that the operating company owed something like \$2 billion to other bankers. Thus, the legal nightmare arose through lack of knowledge and by businessmen assuming that things in Mexico are done as in their own countries. This problem had nothing to do with language; every one of these sophisticated national bankers and officers of the corporation spoke the different languages perfectly well.

This example illustrates the importance of understanding the businessman's intent. People on both ends of the border know what they want, but to coordinate what they do with their intent requires professional help to put it all together. In Mexico, many lawyers have had full training in United States law or they have gone through the time and effort required to understand United States' legal systems so they can convey the idea of their own system to United States lawyers and businessmen.

Similarly, a whole range of contracts in Mexico requires different treatment when made in Mexico, especially when Mexican companies contract with foreign companies. Even the bylaws of a company must be reviewed carefully. You have to draft the bylaws of a company very carefully for what you want as to rights of shareholders, etc. A lawyer of high standards and experience is not necessarily fully equipped to do what the client wants. I cannot overemphasize the importance of obtaining proper legal advice.

Likewise, when dealing with Mexican attorneys, it is important to understand how the attorney-client relationship differs in the United States. In order to deal comfortably in Mexico, the United States attorney cannot rely upon the things he or she does in the

United States. In Mexico, one must learn to rely on other things. For example, in a case of a trust agreement, one usually looks upon that as a trust deed used in a real estate transaction in California.

But in regard to professional responsibilities, ethical consideration, and client privilege, things are different. There is no long, detailed discovery procedures, such as attorney-client privilege, existing in Mexico. You simply cannot rely on the kinds of things that you rely on in the United States when you are doing a transaction. People must recognize and even though you go back to the intent of the parties make sure you have the intent of the parties when you make a contract. That might be the same as it is in California. Many concepts and other things that you ordinarily look to and rely upon in the contractual transaction in California simply do not exist in Mexico. Thus, it is necessary to get acquainted with those things that you can rely upon and those things that you can look to in order to ensure that you have a legitimate transaction after you have already determined that the party that you are dealing with is a party that is honest and trustworthy and you want to do business with. But you must start with that and look for these other things that give you the comfort level that you have in advising a client or in entering into a transaction as a business person.