INTELLECTUAL PROPERTY RIGHTS
THE MEXICAN SITUATION

I. Introduction

Our discussions with U.S. industry have revealed that Mexico's protection of foreign intellectual property rights, especially patents and trademarks, is flawed. According to industry, Mexico's approach encourages the Mexican purchaser or end-user to obtain control of the property right in question at the earliest possible time.

Based on comments we have received from the private sector, the following is an inventory of Mexican practices in the areas of patents, trademarks, and copyrights as well as a description of the problems which U.S. industry has encountered in obtaining protection for their intellectual property. Mexican authorities have recently indicated that they are considering changes to their patent and trademark laws. To date no detail has been disclosed, however, on the nature of the possible changes.

II. Background

A. Patents, Trademarks, and Transfer of Technology

1. Issues

a. Legal Protection

1. Protection and Usage Limitations

Article 37 of Mexico's 1976 "Law on Inventions and Trademarks" (hereafter referred to as the Law) confers upon the patent-holder the exclusive right to exploit his invention. The Directorate General of Inventions, Marks, and Technological Development of the Mexican Secretariat for Trade and Industrial Development (SECOFIN) grants all patents. Patents are valid for a nonextendable period of 10 years from their date of issue.

Article 41 requires a patent to be exploited commercially (proof of sales data must be shown) within three years of its issue. Failure to exploit permits others to apply for a compulsory license during the fourth year. Article 48 states that a patent will automatically lapse if there is no exploitation after four years and no compulsory license has been granted.

U.S. firms consider Articles 41 and 48 unrealistic in today's market conditions. Exploitation is not always possible within three to four years. Product importations may be necessary to satisfy if not create a local market. Mexican law, however, does not recognize importation as exploitation of a patent.

Mexico's approach under Article 48 seems to be inconsistent with the Paris Convention. First, the Paris Convention provides a minimum standard for the forfeiture of patents, i.e., "where the grant of compulsory licenses would not have been sufficient" to prevent abuse by the original patent-holder and moreover, not "before the expiration of two years from the grant of the first compulsory license".** By contrast, the Mexican law makes patent lapse automatic after the fourth year of the patent's issuance if the patent has not been worked by the patent-holder and if no obligatory licenses have been requested. Second, Article 5 of the Paris Convention states that compulsory licenses "shall be refused if the patentee justifies his inaction by legitimate reasons". Under Mexican law, only in cases where exploitation of the patent does not satisfy domestic or international demand will the Government of Mexico allow the patent-holder a certain period of time to correct the situation.

2. **Non-Patentable Products**

Article 10 of the Law states in pertinent part that "the following are not patentable:

> I. Plant varieties and animal breeds as well as biological processes for obtaining the same.
>
> II. Alloys.
>
> III. Chemical products with the exception of new industrial processes for obtaining the same and their new uses of an industrial nature.
>
> IV. Chemical-pharmaceutical products and their mixtures, medicines, beverages and foods for human or animal use, fertilizers, pesticides, herbicides, fungicides.
>
> V. Processes for obtaining mixtures of chemical products, industrial processes for obtaining, modifying or applying products and mixtures to which the preceding paragraph refers...."

These exclusions primarily serve commercial purposes as opposed to public health and safety considerations.

**If a patent has not been worked within three years of its issuance, the Paris Convention allows for compulsory licensing to be granted in the fourth year.

U.S. industry maintains that Article 10 has had a negative effect on U.S. commerce. Actual copying of U.S. inventions has ultimately led to Mexico's closure of the border to the U.S. source product since local production in Mexico is a basic reason for Mexican Government denial of import permits.

The lack of patent protection for pharmaceuticals, together with the GOM's new Pharmaceutical Decree have been issues of special concern to U.S. investors and U.S. officials alike. While U.S. pharmaceutical firms in Mexico have operated without patent protection since 1976, the additional burdens imposed by the decree of: (1) restrictions on brand name usage; (2) required generic labeling; (3) restrictions on the local production and importation of active ingredients by foreign originators; and (4) required selling of locally made active ingredients to Mexican firms (or the GOM has the right to authorize manufacture of the new ingredient by a Mexican capital firm) have acted as further disincentives to U.S. pharmaceutical manufacturers.

3. **Certificate of Invention**

The Law of 1976 introduced the Certificate of Invention as a substitute for patents. The foreign patent-holder may elect to introduce his invention by taking out a Certificate of Invention rather than a patent. For the following non-patentable items under Article 10 of the Law, the Certificate of Invention is the only means of protection:

- Processes for obtaining mixtures of chemical products, industrial processes for obtaining alloys and industrial processes for obtaining, modifying or applying products and mixtures with respect to chemical-pharmaceutical products and their mixtures, medicines, beverages and foods for human or animal use, fertilizers, pesticides, or herbicides, and fungicides.

- Inventions pertaining to nuclear energy and security.

- Anti-pollution apparatus and equipment or the processes for manufacture, modification or application thereof.

In addition to the above cases, an inventor may choose to protect any invention with a Certificate of Invention in lieu of a patent.

A Certificate of Invention is valid for 10 years from its date of issue. As opposed to a patent, the

Certificate of Invention's only benefit is to entitle its owner to receive a royalty "from every interested party that exploits his invention". In exchange, Certificate of Invention holders are required to license production rights to any requesting party. When the parties cannot agree on the amount of royalties, SECOFIN will set them and issue a compulsory license. Royalties do not effectively protect the interest of an industry. The industry is interested in exclusive rights.

4. **Protection of Know-How and Trade Secrets**

Protection of know-how and trade secrets introduced into Mexico is governed by Mexico's 1982 Transfer of Technology Law (see II. A. 5, "Protection by Contract" below). Mexico's Patent and Trademark Law requires that where a patent (Article 57) or a Certificate of Invention (Article 73) has been subject to compulsory licensing, the owner of that industrial property must provide "information necessary for exploitation" of the patent or certificate to the licensee or forfeit the patent (Certificate).

Mexico has no laws specifically protecting trade secrets. It is not possible in Mexico to obtain injunctive relief to stop the use of stolen trade secrets.

5. **Protection by Contract**

Since patent protection, for example, is flawed and legal protection for trade secrets and know-how is not provided, companies therefore seek to obtain protection for their intellectual property through contract. Here again, the Mexican Government becomes involved in regulating the terms of such contracts through the 1982 Transfer of Technology Law.

According to the above-named law, all contracts for the transfer of technology must be registered if they provide for any of the following:

- Authorization of the use or licensing of trademarks.

- Authorization of the use, exploitation or sale of patented devices or certificates of invention, improvements, models and industrial drawings.

- The supply of technical know-how by means of plans, diagrams, models, instructions, formulas, specifications, training of personnel, and other methods.

- Supply of basic engineering or details for carrying out installations or the manufacture of products.

- Technical assistance.

- Services of management or administration.

- Advisory services, including consulting and supervision when rendered by foreign individuals or corporate entities or their subsidiaries.

- Authorization of the use of author's rights, which imply their industrial use, except as regards the editorial, movie, recording, radio and television fields.

- Computer programs.

According to U.S. firms, Mexico's treatment of transfers of technology is also a problem. The 1982 Law and its companion Regulations do not permit confidentiality to last beyond 10 years unless the GOM considers it to be in Mexico's economic interest. A licensee is therefore not normally bound to confidentiality beyond that period. The 1982 Law also requires that a supplier assume liability or indemnify the licensee in the event that property rights of third parties are infringed. Furthermore, the supplier must guarantee the quality and the results of the technology in question.

6. **Trademark Linkage**

Article 87 of the Patent and Trademark Law grants exclusive rights to trademarks and service marks. They may be registered for a period of of five years, and are renewable for additional five-year periods indefinitely. Use within 3 years must be demonstrated or the registration will be considered to have lapsed.

Article 127 of the Law requires that trademarks of foreign origin, owned or controlled by foreign investors, must be "linked" in use with a trademark originally registered in Mexico, when used on products to be produced in Mexico. (Trademarks used by in-bond processing companies, trademarks with no words, i.e., "logos," and trade names not used as trademarks are exempt from this requirement.) Under the linkage requirement the foreign-owned trademark cannot appear on a product by itself, but must be accompanied by a Mexican-owned trademark. Article 127 has not been enforced to date. The GOM has seen fit to postpone implementation each December since 1978. Nevertheless, the Article remains on the books and could be invoked in whole or in part by the Mexican Government at any time.

b. **Enforcement and Legal Sanctions**

1. U.S. industry maintains that the GOM does not rigorously enforce the protection of intellectual property rights. A major problem is that injunctive relief, as it is understood in the United States, is not available for violations of industrial property rights in Mexico. While administrative and penal sanctions and civil action for damages do exist, U.S. industry believes the procedures to be lengthy and, without injunctive relief, an insufficient remedy.

While the standards of proof in Mexico are basically the same in civil and criminal proceedings as in the United States, industry complains that the duty of bringing the proof forward is exceedingly difficult, sometimes requiring the complaining party to obtain proof that the rights are being violated at the source, which many times is outside of Mexico.

Finally, industry avers that the Mexican system does not offer adequate mechanisms for the discovery of relevant proof. For example, upon notification of a court order for search and seizure, the offender frequently sequesters the goods and records sought before the order can be served and enforced. Once a judicial order is obtained for damages or for penal actions, industry maintains that it is often nearly impossible to have the police, who are charged with enforcing these orders, actually carry them out.

c. **Participation in International Agreements**

Mexico is a party to the following relevant international agreements: (1) the Paris Convention for the Protection of Industrial Property and (2) the Lisbon Agreement of 1958 for the protection of names of origin and their international registration.

d. **Local Private Sector Programs**

Other than the Mexican Patent Lawyers Association, there are no purely local groups active in the protection of intellectual property rights. In 1978, a group of attorneys representing major U.S. transnational firms formed an "Ad Hoc Working Group" to discuss with the GOM the benefits to Mexico of greater intellectual property rights protection.

2. Suggested Solutions

Discussions with U.S. industry reveal that the following changes in Mexico's patent and trademark laws, practices, and policies would improve the protection afforded to the

intellectual property of foreign investors:

- Withhold compulsory licensing pending justification by the patent or certificate of invention holder as to the reason for not working the industrial property, and allow lapse to occur only when compulsory licensing has failed to result in local manufacture after grant of the compulsory license.

- Establish a new law to protect access to trade secrets or know-how.

- Allow the patentability of inventions currently excluded by Article 10 of the Law.

- Expand patent protection beyond 10 years.

- Eliminate the trademark linkage requirement of Article 127.

- Strengthen the sanctions and enforcement elements of the Law and provide for injunctive relief.

- Attempt to institute a discovery process which realistically enables patent and trademark holders to determine if patent infringement or counterfeiting is taking place. Enable the infringed party to obtain the necessary evidence through court procedures without alerting violators in circumstances where the evidence is likely to be removed.

B. Copyright

1. Issues

a. **Legal Protection**

1. Rights - Article 28 of the Mexican Constitution affords general copyright protection. The Copyright Law of 1963 embodies the constitutional provisions of Article 28. The Office of Copyrights of the Mexican Secretariat of Public Education has the responsibility for all registration of copyrights.

The Copyright Law recognizes and protects the following rights of each author:

(a) recognition of his status as an author;

(b) the right to object to any deformation, mutilation or modification of his work without permission; and

(c) the right to use and temporarily exploit the

work for purposes of gain. Exploitation includes reproduction, execution, adaptation, etc. The right to exploitation may be assigned. This assignment does not authorize the assignee to alter the title, form or contents without the author's permission.

Protection is provided works in any of the following categories: (a) literary, (b) scientific, technical and juridical, (c) pedagogical, (d) musical, (e) dance, (f) pictorial, (g) sculptures and plastic creations, (h) architecture, (i) photography and cinematography, radio and TV, and (j) any other fields which by analogy may be included within categories (a)-(i).

2. Duration - The author's right to use and exploit his or her works is protected during his/her lifetime and for 30 years thereafter for heirs. If the author dies without heirs, protection terminates and the right to exploit the work falls to the Secretariat of Public Education.

The Copyright Law also provides five-year certificates of "reservation of rights," for original, fictitious or symbolic characters or personalities used in literary works or periodicals. Two-year certificates may be used to protect the rights of editors of newspapers, film producers, and intellectual or artistic works.

Foreigners temporarily or permanently domiciled in Mexico enjoy the same rights as nationals in regard to their works. If they are citizens of a country with which Mexico has a copyright treaty, they enjoy all the privileges of nationals accorded under the Copyright Law. (The United States has worked closely with Mexico on copyright issues since 1896. Both countries are parties to the Universal Copyright Convention of 1952.)

b. **Enforcement and Legal Sanctions**

1. Existing Protection/Sanctions - The Copyright Law is stronger and easier to enforce than the Patent and Trademark Law. Such enforcement enables Mexico to ensure better protection of its own nationals' intellectual property. For example, authors' rights groups and associations are quite active in ensuring that authors' and composers' rights are protected. Agreements with comparable U.S. groups -- The American Society of Composers, Artists and Publishers, and Broadcast Music Inc. -- are frequently arranged to ensure that Mexican artists receive suitable fees for works performed in the United States and vice versa.

Mexican courts are protective of what they consider to be intellectual-artistic works. Consequently, copyright

law is rigorously enforced, provided adequate title is shown. Police are frequently called upon to remove works from shelves and/or to confiscate presses. The burden of proof is on the alleged infringer. Normally, the copyright holder need only go to court and claim ownership in order to get the infringer to cease and desist. There is no requirement that a declaration of infringement be obtained from the Copyright Office before initiating court action.

According to industry, the pirating of foreign films and video cassettes has become widespread in Mexico in recent years. While the Mexican Government has never condoned such pirating, the technical ease with which pirating can occur has made enforcement difficult.

U.S. computer and software companies were recently pleased that the Mexican Copyright Office in October 1984 published a resolution stating that computer software can now be protected as a copyrighted work. While this decision to permit software registration does not settle the question of copyrightability under Mexico's law, it is a step in the right direction. The GOM is currently reviewing the Copyright Law with a view to further strengthening copyright protection.

2. Procedural/Administrative Problems - We understand that a problem can arise if copyright owners cannot demonstrate title to all items of a copyright. This becomes important when an infringer challenges a court suspension order on the grounds that the copyright holder does not have title. Unless the holder has done his homework, a lengthy and costly title examination can ensue. The suspension order will be lifted unless title is proved.

Some Mexican authors groups may not have reciprocal agreements with their U.S. counterparts. In such cases, it has been reported that the Mexicans will not transmit royalties or proceeds from the performance or use of U.S. works in Mexico. U.S. firms would like to see the practice stopped.

Unauthorized use of TV satellite and/or cable transmission has been alleged. To date, however, it is not a major problem and no cases have been brought to court.

U.S. government officials currently are discussing copyright issues related to telecommunications with the GOM. Rebroadcasting rights and payments to U.S. rightsholders of programming retransmitted from the U.S. border to cable systems in Mexico City are particular areas of interest. Mexican laws and adherence to

international treaties on copyright embrace the same concepts with regard to telecommunications as U.S. law, but the Mexican enforcement framework probably is not as strong. Thus enforcement is a key issue as well.

c. **Fairness and Complexity of Registration**

Even though Mexican copyright protection exists without official registration of the work, the Copyright Law does provide for a public copyright registry. It is managed by the General Copyright Office. With the recent strengthening of the registration procedure for computer software, there appears to be little U.S. complaint about fairness or complexity.

d. **Participation in International Agreements**

Mexico is a party to the following conventions and agreements: (1) Universal Copyright Convention (1952), (2) Inter-American Convention on Copyright and Literary Property (Washington - 1946), (3) International Convention for Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961), (4) Buenos Aires Convention on Literary and Artistic Property (1910), (5) Berne Convention for Protection of Literary and Artistic Works (1948), and (6) Bilateral agreements with the United States, Denmark, Dominican Republic, Ecuador, France, and the Federal Republic of Germany.

e. **Local Private Sector Programs**

The Sociedad de Autores e Compositores de Musica, S.A. (SACMA) is probably Mexico's most active of the authors groups in the protection of copyrights. SACMA also has a reciprocal royalties agreement with Broadcast Music Inc. TELEVISA is currently working with the Motion Picture Association to upgrade copyright administration and procedures in Mexico.

2. Suggested Solutions

According to U.S. industry, the following would serve to improve copyright protection in Mexico:

- Establish a more efficient procedure for proving title to copyrights.

- Persuade Mexican Copyright Officials to administer the Copyright Law so that rights of composers and authors cannot be used in Mexico unless just compensation is paid. With such support, U.S. owners of copyrights could institute suspension proceedings with greater assurance of success. The Copyright Office's ruling could obviate the need for reciprocal agreements with artist groups in Mexico. The ruling would make it more difficult for pirates to operate.

- Establish a dialogue between U.S. and Mexican Copyright Officials similar to that between Mexican and U.S. Patent Offices.

C. Unfair Competition

1. Issues

a. **Legal Protection**

No unfair competition law exists in Mexico. The GOM believes that existing legislation is adequate to protect intellectual property rights. In the case of know-how or trade secrets, which can be part of an agreement between licensor and licensee, the licensee can be sued for breach of contract if he violates the agreement.

b. **Enforcement**

N/A

c. **Fairness and Complexity of Registration Procedures**

N/A

d. **Participation in International Agreements**

Article 10 of the Paris Convention, which Mexico has signed, proscribes a minimum standard of unfair competition.

e. **Local Private Sector Programs**

Note patent and trademark and copyright discussion on this subject.

III. ITA ACTIONS TO DATE

2/21-22/82 At a meeting of the JCCT in Cozumel, Mexico, ITA representatives proposed the inclusion of an IPRWG within the JCCT. Mexico formally agreed to the proposal in March 1982.

5/13-14/82 The IPRWG held its first plenary meeting in Washington. Major issues were identified.

10/82 Preparations were carried out for scheduled IPRWG meeting. The meeting was postponed and ultimately cancelled due to Mexico's financial crisis. No IPRWG plenary has been held since then.

2	12/13/84	Members of the Ad Hoc group met with ITA, USTR, and PTO officials in Washington to decide on how to proceed regarding Mexican intellectual property rights. The meeting was also used to solicit the Ad Hoc group's suggestions for input into the USG study on Mexico's continued GSP eligibility.
	7/15/85	Following Mexican indications that changes might be made to the patent and trademark laws and that U.S. suggestions on changes would be taken under consideration during the revision process, ITA officials drafted a U.S. position paper on intellectual property rights. The document subsequently was transmitted to Mexican Commerce Secretary Hernandez.
	7/25/85	The issue of intellectual property rights was raised by ITA officials at the July 25 meeting of the U.S.-Mexico Binational Commision. ITA emphasized the link between intellectual property rights and Mexico's GSP standing. Mexican officials responded by announcing they were preparing to suggest changes on their intellectual property right laws to the Mexican Congress. A consultative meeting at which U.S. representatives could present their views and suggestions for change was tentatively scheduled for mid-August.
	8/5-8/85	ITA and PTO officials met with USTR and industry representatives to draft a strategy for the mid-August meeting with the meetings. Issue priorities and interconnections were set. Mexican authorities subsequently cancelled the scheduled meeting. A new date is being sought by USG officials.