ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS AND TRANSFERS IN MEXICO WITHIN THE NORTH AMERICAN CONTEXT

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Abstract

This dissertation analyzes the process of harmonization of intellectual property laws in Mexico within the North American context. It examines the political and economic driving forces behind such harmonization and the deregulation of technology transfer agreements. Furthermore, in the context of NAFTA, the dissertation studies, from the legal perspective, the problem of the enforcement of intellectual property rights in Mexico. Technical problems are identified and recommendations for the legal system are provided for the appropriate enforcement of intellectual property laws.

Abrégé

Cette thèse présente la manière dont le Mexique a harmonisé ses lois de la propriété intellectuelle avec les lois nord-américaines. Elle analyse les forces dirigeantes derrière cette réalisation et le processus de dérégulation des contrats de transfert de technologie. En outre, la thèse étudie, dans le contexte de l'ALENA, le problème légal de l'application des droits de la propriété intellectuelle au Mexique. Elle identifie les problèmes techniques sous-jacents et suggère quelques recommandations pour favoriser une application efficace de droit de la propriété intellectuelle.

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INTRODUCTION

Since the late 1980's, the Mexican political economy has entered into a process of liberalization, leaving behind the old policies of restrictions and the over-regulation of private property and private activities, which produced slow economic development. Numerous changes were required in order to achieve the goal of modernizing its economic potential. Domestic regulations and restrictions in respect of investment, technology transfers and trade regulations were liberalized. Also, Mexico became a party member in the General Agreement on Tariffs and Trade (GATT), currently the World Trade Organization (WTO) and signatory member of the North American Free Trade Agreement (NAFTA) as a regional strategy, assuming compromises in fields, such as international trade on goods and services, investment and intellectual property.

In particular, one of the most important changes to Mexican policy was the adoption of new intellectual property laws, mainly as a result of international pressure for adequate intellectual property protection. These pressures arose generally through negotiations of international trade agreements. In addition, Mexico adopted its own intellectual property laws, in an attempt to attract capital and technology from abroad, resources required for its own development and global competitiveness.

Despite the fact that such intellectual property laws are currently harmonized with the intellectual property laws of Canada and the U.S. through NAFTA, as well as, other

member nations of the WTO; such laws are not enforced and implemented effectively. This situation brings problems to the whole of the Mexican intellectual property system, affecting the evolution of the technology production in Mexico, as well as, the international technology transfer from abroad. In other words, this ineffective enforcement of intellectual property rights may cause, or produce similar results as, inadequate protection and, thus, the economic development of the country may be in jeopardy.

This work will deal with several issues related to the enforcement of intellectual property laws and technology transfers within the North American context. For these purposes, the current situation and the real reason behind the protection of intellectual property rights will be analyzed from several perspectives, including the social, economic and legal. Furthermore, in order to identify the problems related to effective enforcement, the Mexican legal system in respect of intellectual property laws and the legal mechanisms available for their enforcement will be analyzed.

Thus, Part I (Chapters 1 and 2) deals mainly with the social, economic, political and commercial arguments surrounding intellectual property rights in Mexico, within the context of North America. Chapter 1 exposes, first, the traditional justifications of intellectual property protection that are internationally accepted, and second, an economic and social analysis concerning the case of Mexico. It will be discussed how traditional rationales do not necessarily apply in the case of Mexico, and thus, how the effective enforcement of intellectual property rights may be obstructed. In chapter 2, the

technology production in North America is presented from a commercial perspective, in order to clearly identify the current situation on technology transfer and its importance in the region. After that, the attitude and policy of the Mexican government to attract technology from countries such as Canada and the U.S. is presented from a commercial and political economy perspective.

Part II (Chapter 3 to 6) deals with legal issues related exclusively to the Mexican intellectual property laws, in order to clearly describe the legal system from an international perspective, and in order to test Mexican integration. Therefore, Chapter 3 deals with a comparative analysis of Mexican intellectual property laws, vis-à-vis the Canadian and the U.S. intellectual property legal systems, in order to verify the level of harmonization, as well as, comments on the substantive distinctiveness. Furthermore, Chapter 4 is an analysis of the transfer of intellectual property rights, in particular from the international perspective, where the old regime and the new regime are discussed with regard to the transfer of technologies through licensing agreements. Also, in respect of licensing agreements, Chapter 5 is a discussion of the competition laws in Mexico, and the extraterritoriality of the U.S. competition laws, within licensing agreements. Finally, Chapter 6 discusses, and compares, the main promises made by Canada, Mexico and the U.S. in the NAFTA, with respect to intellectual property laws.

Part III recognizes that intellectual property rights and technology transfer agreements are currently not effectively enforced in Mexico. Chapters 7 to 11 discuss and test the legal mechanisms of intellectual property enforcement that Mexico should have adopted under

NAFTA. In addition, the scope of the remedies available and procedural mechanisms is also analyzed. Further, there is a discussion of the technical problems and conflicts arising from the Mexican legal and judicial systems that may result in difficulties and an ineffective enforcement of intellectual property rights. Finally, in such cases where Mexican law can, or should, be corrected for the effective enforcement of intellectual property rights, a positive criticism is presented.

Part I: LEGAL, SOCIAL AND ECONOMIC GENERALITIES OF INTELLECTUAL PROPERTY RIGHTS IN NORTH AMERICA.

Chapter 1: Contrast of Intellectual Property Rights in North America

The legal, social and economic justifications concerning the concept of intellectual property rights (IP rights) are construed differently in Mexico, Canada and the United States (or North America), despite the fact that, on purely legal technical level, the terms appear to be standardized.[1] The economic evolution, as well as, the political history of the three countries differs substantially in respect to private property, technology and investment, among other issues, which affect in one way or another the implementation and enforcement of IP rights. The justifications considered by domestic policy makers in each over the past fifteen years served different interests. In Canada and the United States (U.S.), claims for strong intellectual property protection (IP protection) are used to defend their technology investments and millions of dollars in sales,[2] whereas for Mexico, IP protection means facilitation of global integration and attraction of foreign capital and technologies.[3] Therefore, the process of practical implementation and enforcement of intellectual property rights in Mexico will be progressively effected, while adapting an attitude of protection.

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[1] See generally: North American Free Trade Agreement Between the Government of Canada, the Government of Mexico and the Government of United States, 17 December 1992, Can. T.S. 1994 No. 2, 32 I.L.M. 289 (entered into force 1 January 1994) c. 17, art. 1701-28 [hereinafter NAFTA].

[2] It was estimated by the United States that billions of dollars where lost because of inadequate Intellectual Property Protection, either because non-implementation of Intellectual Property Laws or tolerance. M. J. Trebilcock and R. Howse, *The Regulation of International Trade*, 2nd ed. (Toronto: Routledge 2001) at 308.

[3] Mexico, as other developing countries, agreed to adapt their Intellectual Property Laws in order to attract foreign direct investment and technology. See Trebilcock and R Howse, *ibid*, at 308-311.

Therefore, in this chapter we will expose, first, the traditional justifications of IP protection that are internationally accepted, and second, an economic and social discussion about the case of Mexico, explaining why these rationales do not necessarily apply to Mexico, and thus, cause problems in the effective enforcement of IP rights.

Intellectual Property Rights: Traditional Legal conceptualization.

Technically speaking, IP rights have been viewed and accepted internationally as a law that protects and regulates innovations and creations of the owner or inventor.[4] This branch of law protects the human creation itself, as well as, its use and exploitation.[5] Pursuant to common law systems, such as Canada and U.S., intellectual property may include all means of human creation in a broad sense[6] and, accordingly, it involves inventions, industrial designs, trade secrets and copyrights. In civil systems, such as Mexico, industrial property is the expression used, where copyright is a separate intellectual property right.[7] However, as a result of recent developments, such as North American Free Trade Agreement (NAFTA) and the agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS) of the World Trade Organization (resulting from

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[4] See e.g. W.R. Cornish, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights*, 3rd Ed. (London: Sweet & Maxwell, 1996) at 3.

[5] See e.g., L. Bently & B. Sherman, *Intellectual Property Law*, 1st ed. (Oxford: Oxford University Press, 2001) at 1.

[6] W.R. Cornish *supra* note 4 at 3. ("Intellectual property is a fashionable description of original ideas...all are dealt with by broad analogy to property rights in tangible movables").

[7] Patents, industrial designs, utility models and trademarks are covered in the Mexican Industrial Property Law, *Ley de Propiedad Industrial, infra* note, 9, arts. 15, 27, 31 and 87. Copyrights are protected in the *Ley Federal de Derechos de Autor*. See *Copyright Law, infra* note 14, art 1.

the Uruguay Round), the term "intellectual property rights" is the term used both domestically in North America and internationally.[8]

Within the scope of IP rights, there has been a domestic and international acceptance of the most important IP rights institutions, protecting technologies such as patents, trade secrets and copyrights. Such legal harmonization also presumably is consistent in respect of the justifications for its implementation. Therefore, a brief description of the legal justifications of patents, trade secrets and copyrights will be presented, which on the whole appear to be similar both internationally and domestically in North American countries. Then, a social and economic discussion will follow concerning potential differences in implementation and effects on enforcement.

Justifications for Patents

A patent is usually justified by a fair exchange of benefits between the inventor and the State. A patent is limited protection, only for 20 years, (usually called a monopoly), granted by the state to the inventor as an incentive for the public disclosure of technical information that can be applied by a person skilled in the art. The works covered under the patent regime include any new and useful art, process, machine, manufacture or composition of a matter. The right given to the inventor is negative in nature because it allows the inventor to legally prevent others from the making, using, selling and

[8] See NAFTA *supra* note 1, c. 17. Also see WTO, *Agreement on Trade-Related Aspects of Intellectual Property Rights*, Geneva 1995, Annex 1c, art. 1 (2), art. 2. [hereinafter TRIPS].

exploiting of the patented invention. To this end, the patent system is generally justified to encourage innovation and commercialization of technological advances.[9]

Justifications for Trade Secrets

A trade secret is any information of industrial or commercial value, or at least a potential value, that has been kept confidential. The scope of protection of subject matter in the three countries, in general, is not limited as long as the information is kept confidential.[10] The generally accepted rationales for legal protection of trade secret are based on two principal concepts: first, the creator's right of privacy to have kept the information confidential, and second, the fiduciary duties of the persons using or having access to that information, in the sense that those third parties should keep the information confidential.[11] These principles of protection can be found in different forms in the three countries of North America. For example, in Mexico, trade secrets protection, and justifications for such protection, can be found in the legislation (or statutes) since

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[9] See specially L. Bently & B. Sherman, *supra* note 5 at 1, 29-31, 309, 314. Also see W.R. Cornish *supra* note 4 at 34. Also see J.T. Ramsay, *Technology Transfers and Licensing*, 2nd ed. (Toronto; Butterworths Canada ltd. 2001) at 23. See Holyoak & Torremans, *Intellectual Property Law*, 3rd ed. (Great Britain: Butterworths 2001) at 5, 15, 14-21. See especially for legal justifications in Mexico, *Ley de Propiedad Industrial*, published in the official gazette on 27th June 1991, arts 2, 9, 13, 15 and16. [Hereinafter, Industrial Property Law]. But see A. S. Gutterman and Bentley J. Anderson, *Intellectual Property in Global Markets, a guide for foreign lawyers and managers*, 1st ed. (United Kingdom: Kluwer Law International Ltd, 1997) at 5, where it states that differentiations may be in the subject matter.

[10] "...[i]n common law regimes, the law do not protect ideas itself, basically the law protect fiduciary duties (breach of confidence), secrecy and the right of privacy.....[t]he person can prevent other from using or disclosing information if it can prove that the use or disclose is bound by an obligation..." see as L. Bently & B. Sherman *supra* note 5 at 920. See A. S Gutterman and Bentley, *ibid* at 7, "common law countries had well established provisions such as fiduciary duties...some countries just protect trade secrets for industrial nature while in others protection is extended for customer list and channel of distribution". See Mexican Industrial Property Law, *Ibid* c. unique art 82-86.

[11] "...[l]aw as refused to recognize IP in ideas and information. But the person can prevent others from using or disclosing the information if it can prove that the use or disclosure is bound by an obligation." In common law jurisdictions is more a matter of breach of confidence and in civil law systems is more the right of privacy. It is also not clear the basis of an action related to a Trade Secret "*contract, tort, equity of property...*". See Bently *supra* note 9 at 920.

1991.[12] However, even prior to this date, confidentiality, privacy and fiduciary duties were protected by the civil code as separate and individual rights.[13]

Justification for Copyright

The copyright system in common law countries is primarily concerned of the creation and diffusion of new works, while in civil law countries, it tends to be more pro-natural rights through recognition of the right of the author from his or her works.[14] Copyright is an older legal institution than patents or trade secrets, and originally, technology was not considered to be included in its regime, as it is today in the case of computer programs. This development is easily accounted for common law countries, but not in civil law countries because the tradition is not easily adjustable as a result of economic reasons. However, basic elements of the system, such as the "automatic rights"[15] of protection in favor of the author, protecting the right in their original expression, including "every original literary, dramatic, musical and artistic work,"[16] are common in the three countries in North America.[17] Despite this, in Mexico, the protection of copyright is more

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[12] See Industrial Property Law, *supra* note, 9.

[13] See, for right of privacy and fiduciary duties respectively, *Federal Civil Code*, published in the official gazette in October, 1st, 1932, as amended until April 28, 2000, arts 8, 1916, 2557-2559, 2565-2572.[hereinafter Civil Code]

[14] Ibid. at 28-29. J.T. Ramsay, *supra note* 9 at 47-50. But See also A. S Gutterman and Bentley, *supra* note 5, at 7. See also for legal reasons *Ley Federal de Derechos de Autor*, published in the official gazette on 24 December 1996, arts. 1-3, 5, 7, 11, 13 [hereinafter *Copyright Law*].

[15] See as L. Bently & B. Sherman *supra note* 5 at 28-29, " common law countries primarily concerned with encouraging the production of new works (economic rights)... with limited recognition of moral rights....[c]ivil law countries are more pro-natural rights of the creators.... civil law not only secure economic rights, but protect a lot the works against uses which are prejudicial to an authors spiritual interests."

[16] Copyright Act, R.S.C. 1985, c.42, s. 5 (1) (hereinafter Copyright Act (Canada)).

[17] *Ibid.* at 28-29. Also see, J.T. Ramsay, *supra* note 9 at 47-50. But, see A..S. Gutterman and Bentley, *supra* note 9 at 7. See also for legal reasons *Copyright Law*, *supra* note 14, arts. 1-3, 5, 7, 11, 13.

restricted to protect cultural expressions of Mexican authors; protection of non-Mexican authors occurs as a result of international reciprocity.

From a purely legal perspective, if the three IP systems in North America share the same fundamental basis, their implementation and enforcement should not be of major concern. [18] Nevertheless, some technical differences (such as the Mexican emphasis on cultural expressions of copyrights) may bring dissimilar results in litigation. This results from the mere fact that in a common law system, the courts have more discretionary authority to solve a case basing decisions on economic facts and rationales, whereas, in civil law systems, the judge will be constrained to interpret and apply the legislation strictly, with less possibility to consider the rationales of the law and current economic developments related to it. In other words, in civil law systems, the judge is forced to examine the literal interpretation of the law, and the enforcement of such laws is more formalistic without much possibility to consider the substance of the law (e.g., the rationales of the law). Therefore, the legal justifications of IP rights can be interpreted differently in the three countries' judicial and legal systems, having naturally, an effect on its effective implementation.

Furthermore, another discrepancy can be made about the substantive regulation with respect to property rights in general. The historical events of each country may bring different perspectives about equity and justice of property rights,[19] influencing their understanding of ownership on intangibles. In Canada and the U.S., the concepts of

[18] *W.R. Cornish, supra* note 4, at 103. "[a]ll the rights are enforced in similar ways, and all with by broad analogy to property rights in tangible movables".
[19] See *Holyoak & Torremans, supra* note 9 at 12

property rights have been consistent for most of their historical existence, and have become part of the core substance of their economic, social and legal structures.[20] The fact that the U.S. is a more capitalistic country than Canada is not a consideration with respect to this issue. Though, until recently, it has been globally accepted that legal structures protecting property rights led to strong economies, development and economic progress.[21] These values and ideals have been adopted in Canada and the U.S. since their origin.

In Mexico, private property issues were questioned in the nineteenth and early twentieth centuries, and, in some cases, were legally restricted as a result of the inequitable distribution of land and wealth among individuals in the country.[22] However, restrictions on land and industry activities included in the Mexican Constitution of 1917,[23] were, fortunately, amended in the late 1980's, as a result of poor economic development, low levels of technology production and chaos in development in general. These amendments were made in an attempt to strengthen property rights. These changes occurred at the same time as the issuance of new and modern IP rights laws (except copyright law).[24] Therefore, the drastic change of direction of the Mexican in property rights led to a problem in respect of the implementation and enforcement of intellectual property rights

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[20] *Ibid.*

[21] "[p]POLITICAL ECONOMIY AND ECONOMIC PROGRESS..[t]here is a general agreement now that innovation is the engine of log-run economic growth...[I]nnovation requires a market economy...strong property rights....democratic political system..." See specially Ch. W. L. Hill, *International Business, Competing in the Global Marketplace*, 3rd ed., (New York: McGraw-Hill Higher Companies Inc. 2002) at 50-53.

[22] Strong landlords and huge rural communities under their control led to the Mexican Revolution of 1910.

[23] [R]estrictions on land, soil and other natural resources private property. See *Constitución Politica de los Estados Unidos Mexicanos*, Published in the Official Gazette 5 February 1917, art. 27 before amended.

[24] The Mexican Industrial Property Law was enacted in June 1991 and amendments in the Mexican Constitution in 1991. Copyright laws were adequately accepted the way they were enacted prior to 1991 and therefore, there was no need for immediate amendments or new copyright law. See, Analysis of IP laws US-Mexico, *infra* note 34.

in Mexico, since the public does not generally accept the value of property rights (explained below).

Traditional philosophic justifications vs Mexican economic and social reality

Despite the traditional justifications of IP rights (aside from the general justification of property rights), such as of incentive based system,[25] reward system, encourage of production,[26] public benefit and moral rights,[27] the recent structural changes of Mexico were accomplished mainly for economic reasons due to the crisis in the 1980's when it became a free market economy in response to international pressures for intellectual property standardization.[28] In contrast, in the U.S., the historic economic evolution followed the industrial revolution of 1800's, and their economic models and structures were based on innovation, strong property rights, industrial and technology development, free market and competition.[29] Canada, a country with less capitalistic aggressiveness, also had an innovative industry and traditionally strong capabilities to adapt technologies from abroad; furthermore, it had experienced the economic benefits of innovation and

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[25] It is believed that on patents is an incentive to disclose while otherwise the innovation would be on secrecy. See Holyoak & Torremans *supra* note 9 at 21. On copyrights is an incentive for the dissemination of the works. See L. Bently *supra* note 9 at 21.

[26] "[I]nduces or encourages desirable behavior...inventive capacity"...."The short period of time for patent protection push for more research and development... [t]his suppose to work as a vector that links scientific and technical research with commercial spheres" See L. Bently supra note 9 at 3. "No one would invest in innovations because it would be a competitive disadvantage...the cost of distributing copied works is insignificant...economy will no function well, because innovation is essential element in competitive free market economy.... [I]n this line of argument innovation and creation are required for economic growth and prosperity... [C]orrelation between industrialization and patent system development." See Holyoak & Torremans, *supra* note 9 at 15, 21. "...[d]emand for intellectual property protection result from economic factors and theories of liberation..." see W.R. Cornish, *supra* note 4 at 1-34.

[27] *Ibid*, W.R. Cornish; "[e]thical and moral arguments to justify intellectual property..." on Copyrights "[I]ntellectual property emanate from the mind of an individual author' on Patents, "[n]atural rights of inventors to the products of their mental labour", See L. Bently *ibid*, at 314.

[28] See T. J. Botzman, "Technology and Competitiveness in Mexico; an Industrial Perspective," 1st ed. (NY: University Press of America, 1999) at 26-36.

[29] See Hill, *supra* note, 21 at 35-45.

technology, thus, testing traditional justifications. For that reason, the legal regimes of Canada and U.S. (as in every other developed country) consistently support the values and attitudes among innovation and technology, because that is what drives their economies.[30]

In the case of Mexico, the ideology behind the protection of intellectual property prior to the 1990's was weak for several reasons. First, property rights were limited so there was no incentive to invest considerable amounts of capital.[31] Second, many industries and activities were reserved for the state, such as communications and energy; therefore, no private company could invest in technologies related to those areas.[32] Third, there was no industry sufficiently developed mainly as a consequence of the reasons mentioned above, and the efforts of the government were directed to protect and promote local industry and to receive technology from abroad at a lesser cost.[33] Fourth, the IP laws were protectionist and many restrictions were imposed on transferors of technology, such as registry of the agreement on a National registry; foreign transferors where prohibited to intervene with the transferee operations; improvements were to be assigned to the

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[30] GNP and purchase parity power as a measures for economic development. See *Ibid* at 47. See also OECD, *"ICT Investment and Economic Grow in the 1990's: Is the United States a Unique Case? A Comparative Study of Nine OECD Countries"* Working papers DSTI/DOC (2001) 7, (OECD, Directorate for Science, Technology and Industry, JT00115329) at 3.

[31] Mexican Constitution, *supra* note 23 at art. 27 before amendments published in the official gazette on January, 6, 1992.

[32] This is an abrogated law regulating investment. See, *Ley de para Promover la Inversion Mexicana y Regular la Inversion Extranjera*, art. 1-3, published in the official gazette on March, 9, 1973, and abrogated on December 1993.

[33] The law of invention and trademarks of 1976 was a clear example of the protectionist policy of the 1970's which was supposed to encourage Mexican industry and technology development by prohibiting too many clauses to foreign transfers of technology. See Rafael V. Baca, "*Compulsory Patent Licensing in Mexico in the 1990's: The Aftermath of Nafta and the 1991 Industrial Property Law*" 1994 (IDEA: The Journal of Law and Technology, PTC Research Foundation of the Franklin Pierce Law) at 5. [hereinafter Licensing in Mexico].

transferee; and the term of the patented technologies was shorter than 20 years.[34] It was evident that industrial property protection was not a national priority for social and economic reasons, unlike other economic resources, like the manufacturing, agriculture or oil industry.[35] However, copyright was adequately protected because of the rich production of musical and literary works (except for computer programs) and the considerably high level of development of the movie industry. In this respect, the Mexican law on copyright *Ley Federal de Derechos de Autor* was strong and adequately enforced even before the 1990's.[36]

It was not until the early 1980's when Mexico, along with other developing countries came to realize the importance of adequate IP protection. Two major facts provoked this reorientation of the national economy: First, too many developing countries in Latin America, including Mexico, incurred high foreign debts with international organisms, such as the World Bank and the International Monetary Fund, as a result of their low economic development and extreme dependency on natural resources. Mexico, in particular, was in economic crisis provoked by an international oil shock prices, as a result of its strong dependency on this resource. Secondly, the national economic model

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[34] See Botzan *supra* note 28 at 37-42. See also: "...[t]he 1982 Technology Transfer Law" (the "1982 law") further complicated the laws regarding patent licensing in Mexico... a licensing agreement in technology transfer would be denied registration with the Registry if the license included seventeen provisions listed in articles 15 and 16..." *Ibid* at 5.

[35] "...[e]ach country decides whether its competitive advantage resides...", J Trebilcock & R. Howse, *supra* note 2 at 308. "[c]orrelation between industrialization and patent system development...[w]hen a country starts its own industry it starts its patent system..."See also Holyoak & Torremans *supra* note 9 at 21.

[36] See R. Sandoval & C-P Leung, "*A Comparative Análisis of Intellectual Property Law in the US and Mexico, and the Free Trade Agreement*" 1993 (Maryland Journal of International Law and Trade) at 26. [hereinafter Analysis of IP Laws US-Mexico].

was based on import substitution model,[37] restrictions on property and investment, and inadequate intellectual property protection.[38] These two situations basically led to low economic development based on natural resources without technological structure. Consequently, in the mid 1980's, Mexico started to change the direction of its political economy for a "export-led industrialization fueled by foreign investment and technology", a model also known as ELIFFIT.[39] What was urgently needed was capital and technology to overcome the crisis and to be able to compete at the international level. By contrast, the globalization phenomenon started and information and communication technologies began to have economic importance worldwide.[40] It was recognized in the Mexican government that technology and innovation resulted in capital but, at the same time, capital was needed to produce innovation at competitive international level.

For that reason in the late 1980's and the beginning of 1990's, new economic structures, designed at the highest levels of the Mexican government, introduced the free market economy.[41] Structural modifications in respect of private property (1991), foreign direct investment (1993), industrial property laws (1991), commercial laws and rulings, took

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[37] J Trebilcock & R. Howse *supra* note 2 at 367-368.

[38] See Carlos M. Correa, "*Harmonization of Intellectual Property Rights in Latin America: Is There Still Rom For Differentiation?*", 1997 (NYU Law Journal of International Law and Politics) at 150-151. [Hereinafter *IP Laws Harmonization*]

[39] See Lori M. Berg, "The North American Free Trade Agreement & Protection of Intellectual Property: A Converging View" (Journal of Transnational Law & Policy fall, 1995) at 132. [Hereinafter, *NAFTA and IP Protection*].

[40] See Hill, *supra* note, 21 at 2-21.

[41] In the administrations of Miguel de la Madrid-Hurtado (1982-1988) and Carlos Salinas de Gortari (1988-1994) in which the presidents usually had control of the congress because of the total control of a non-democratic governments (PRI political party), legislation proposed by the president was approved quickly. In contrast with the new democratic government of president Fox, congress debated too much and currently it takes to much time to pass legislation proposed by the president.

place by the Mexican congress[42] in order to receive technology and capital from other countries. This time, however, it was under different circumstances. Simultaneously, the Mexican government began to privatize state-owned companies to improve competitiveness.[43] On the other hand, the annexation in the General Agreement on Tariff and Trade (GATT) in 1985, and the signing of the North American Free Trade Agreement (NAFTA) on 1993, among others, were part of the new orientation of the political economy, by turning into a free market economy with all its implications, such as IP protection. Mexico presented to Canada and the U.S. strong evidence of acceptable IP laws in order to be able to join NAFTA.[44]

At the same time, at the global level in the Uruguay Round of GATT negotiations, led by the U.S., developing countries[45] were pressured for the creation of the agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), as a condition for trade concessions.[46] Therefore, intellectual property laws in many countries, such as Mexico, resulted from international trade arrangements with the main purpose to attract from

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[42] It is also well known that the pressures of the U.S. to Mexico, was Mexico was added to the "watch list" of the U.S. Trade Representative and in the "priority watch list" for those countries with inadequate IP regimes that unjustifiably burdened US commerce under the 301 remedies of the US trade Act. See Licensing in Mexico, *supra* note, 33 at 5.

[43] In the Administration of Carlos Salinas de Gortari (1988-1994) the banking and communication systems were privatized along with other key industries.

[44] See, Susan K. Sell, *Power and Ideas, North South Politics of Intellectual Property and Antitrust Laws*, first ed. (US, State University of New York Press, 1998) at 196-197.

[45] Cornish, *supra* note 4 at 1-28.

[46] "Since the beginning of the Uruguay Round of the General Agreement on Tariffs and Trade {GATT}, many countries have attempted to solve this problem by incorporating intellectual property rights into their trade agreements with other countries" See NAFTA and IP *supra* note 39 at 128. See especially "[n]ot surprisingly, it was the United States that spearheaded the movement to have intellectual property rights included as an integral part of the Uruguay Round negotiations", Trebilcock & Howse, *supra* note 2 at 320-321.

abroad short term capital and technology, and to achieve a better competitive position in the new global market.[47]

Despite the current effort of the Mexican government and private organizations to promote innovation and technology development the traditional justifications and benefits associated with IP protection were not assimilated by the ordinary Mexican nationals and officials in the same way as it was in Canada and the U.S. In Mexico, IP rights protection is seen as the legal basis for other benefits associated with the attraction of foreign direct investment and technology transfers from abroad. Since local technology is not part of the competitive advantage, technology needs to be imported and implemented for the productive sectors as quickly as possible. This difference in the conceptualization of IP rights traditional social and economic justifications in Mexico has effects on the effective implementation of IP protection, because it can lead to intolerance of the respective authorities and ineffective enforcement in the case of infringements.[48] After all, a strong IP protection regime in a country is construed not merely by adequate laws, but also by their compliance and effective enforcement.

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[47] "[t]hese changes have been caused largely by changing policies of home and host developing countries, their developmental patterns and their growth prospects...[t]he latter includes the global trend of liberalization of national economies to trade and investments, privatization of public sector enterprises and opening of services and infra structure sectors, the trend of regional economic integration in several regions, the emergence of new generic or core technologies...[t]he evolution of new core technologies, e.g. ICT (information and communication technologies), biotechnologies and advanced materials and their widespread application in different sectors highlighted their commercial potential and have promised the reaction of techno nationalism and technological protectionism in the industrialized world..."See N. Kumar, "*Globalization, Foreign Direct Investment and Technology Transfers; Impacts on and Prospects for Developing Countries*", 1st ed. (USA and Canada, UNU/INTECH, Routledge, 1998) at 2.

[48] A tolerant authority tend not to apply consistently.

The Enforcement implications

Along these lines of argumentation, from the practical point of view, it is not sufficient to possess harmonized IP laws for technological and economic development if those laws are not enforced properly. In the ordinary practice of the law, particularly in enforcement issues, administrative authorities, judges and prosecutors are in charge of the enforcement of IP laws, and their perspective in respect to IP laws may be different than the policy makers. Thus, the policy makers in the three countries may agree by signing a treaty, but their enforcement authorities do not. For example, in the case of Mexico, authorities in charge of enforcement of intellectual property rights are not yet as effective as Canadian and U.S. authorities because their perspective of IP rights is not the same: in Mexico, some judges still reject issues of IP rights, globalization and economic integration.[49] Consequently, authorities in charge of enforcement, in particular judicial authorities, may be more tolerant in respect of IP right infringements than with infringements in other legal institutions, such as those with legal-social dimension to them.[50]

On the other hand, ordinary consumers in Mexico may actually infringe intellectual property laws more consistently than those in Canada and the United States, because there is no general sense of the misappropriation of the intellectual property infringed.

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[49] "...[d]espite these changes and the apparently considerable incentives for Mexico to comply with demands for stricter intellectual property enforcement, Mexican enforcement efforts are still notoriously weak." See Susan Sell *supra* note 44 at 197.

[50] "...[U]S rights holders have expressed concern with enforcement, especially with regard to copying of software and audio-video works. Although Federal authorities conduct investigations and carry out raids, few arrests result. Criminal cases have been compromised by information leaks and loss of evidence, although the number of such incidents substantially last year..." See US State Department, 1996 Country Reports On Economic Policy ad Trade Practices, at 8. <http:www.state.gov/www/issues/economi...e_reports/latin_america96/mexico96.h> last accessed 6/22/2002.

Fortunately, however, the attitude of authorities and consumers is progressively changing for the better, and the effectiveness in enforcement has been incrementing progressed as a result of several reasons. First, it has been more generally accepted that investment (local or foreign) have strong links with intellectual property protection.[51] What must also be noted is the fact that old taboos and phobias of Mexican society in respect of investment and capital accumulation is no longer a major problem. Second, Mexican technologies have been developed at higher levels, and some Mexican multinationals and innovators have been pressuring Mexican agencies for better protection of their technologies.[52] Third, judges and other authorities have become more sensitive about the benefits of strong IP protection because of the great diffusion of Mexican organisms to the public in general. Fourth, it is generally recognized that an adequate level of protection of IP rights may bring to the market in a *timely matter*, something that is necessary for competitiveness.

In conclusion, the effectiveness of IP rights enforcement in a country can depend in numerous factors, such as policy issues, technical legal issues, the judicial system, and corruption among others. However, this chapter deals mainly with socioeconomic and cultural issues, which, from the perspective of the author of this work, are the most important elements in the ineffective implementation of IP rights enforcement, which

[51] For more information about the diffusion and promotion of technology development and protection of Intellectual Property Rights, visit the *Instituto Mexicano de la Propiedad Industrial* "IMIP" at the web page www.impi.gob.mx

[52] For example, Cemex, a leading Mexican multinational company in the field of cement production, had a big portfolio of technologies, and has a strong culture of protection of their technologies that extends to their suppliers and related companies.

necessitate improvement. By contrast, the very solutions and proposals for effective IP rights enforcement can be of a different nature, either cultural, government diffusion or legal adjustments. In Part II and III of this work, the analysis of enforcement will be from the technical and legal perspective: first, by exposing and organizing the applicable laws and precedents in response to some unsustainable and general criticisms about the Mexican legal system, and second, by identifying the specific ineffective procedural regulations and conflicting laws that bring problems for IP rights enforcement.

Chapter 2: Technology transfers in North America and Licensing

The disparity of technology production in North America brings results in exchange of technology transfers for trading arrangements under NAFTA.[53] The benefits of a regional trading block also depends on the mutual advantage of technology interchange, either by producing technologies not available in other countries, adapting technologies or simply receiving technologies for all kinds of business applications that would otherwise be almost impossible to develop on time for economic and commercial reasons.[54] On the other hand, governments and policy makers in Mexico adapted the legislation in order to assimilate new technologies produced abroad for the industrial production processes and, at the same time, offered incentives for the technology transfer. Multinational corporations (MNC's) take all those factors into consideration when deciding for expansion of their technologies for exploitation abroad, either by licensing or other way

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[53] For broader economic understanding see subchapters *"The Formation of Regional Blocks" "Multilateralism versus Regionalism", "The North American Free Trade Agreement"*, See specially M Trebilcock & Howse, *supra* note 2 at 23, 129-134, 329.

[54] For technology global generation trends and international technology transfer trends, See Kumar, *supra* note 47 at 13-32.

of technology transfers.[55] Another factor that is very important is the knowledge that a specific technology produced in one country was adequately protected in another country of North America.

Consequently, in this chapter, technology production will be presented from a commercial perspective, in order to clearly identify the current situation of North America. After that, we will also present, from a commercial and political economy perspective, the attitude and policy of the Mexican government to attract technology from countries, such as Canada and the U.S.

Technology production in North America

For the purpose of measuring technology development in a particular country, it is important to quantify the level of investment made in R&D by governments, private companies or universities. Also, another important source of information, can be the comparison between the number of patents granted and foreign-owned patents in local patent offices, since this would reveal technology developed in a particular country and technology developed abroad and registered in a particular country for the purpose of being used in that country.[56] According to data from the Organization of Economic Cooperation and Development (OECD), the U.S. generated approximately 45% of technology development in the world and Canada, approximately 2%. While the U.S. is

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[55] *Ibid* at 32-33.

[56] "...[I]ndicators that capture the changing relationship between science, innovation and economic performance are crucial so that policy makers may make informed decisions, set priorities and address the challenges of knowledge-based economy." See, OECD, "*OECD Science, Technology and Industry Score board, Towards a Knowledge-Based Economy*', 2nd ed. (Paris: 2001) at 3. [Hereinafter, *STI Scoreboard*]

by far the main source of technology production in the world in almost every leading field such as biotechnology, communication and information technologies, Mexico, by contrast, along with all developing countries, account for approximately 5% of total technology production.[57]

Canada, as the seventh largest national system of innovation of the world, spends approximately $10 billion U.S. dollars annually, while US spends $180 billion, and Mexico, 1.5 billion.[58] Clearly the disparity in the region represents the gap in the level of investment between developed and developing countries. In Canada, the high technology industries are those which are either directly or indirectly related to telecommunication equipment, aircraft, biotechnologies and computer software.[59] The investment in knowledge (R&D, higher education and software) in Canada and the U.S. represent more than 4.5% of its GDP, while in Mexico, it represents less than 2%.[60] The R&D expenditure in Canada and the U.S. is mainly financed and performed by business enterprises (by the way of venture capital or other corporate structures),[61] while in

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[57] Information obtained from the US Patents and Trademarks Office. This source is important because technology producers from almost every country has a US patent. See Kumar *supra* note 47 at 17.

[58] See J. Niosi, "*Canada's National System of Innovation*" 1st. ed (Canada: McGill-Queen's University Press, 2000), at 133-134.

[59] *Ibid*, at 133 and 199.

[60] In particular the U.S. invests more than 6%. US and Canada had equilibrated the investment expenditure in R&D, software and higher education, while most of the Mexican investment in knowledge is on higher education. See STI Scoreboard *supra* note 56, at 15.

[61] "[o]ne way to define traditional venture capital, therefore, is to repeat General Doriot's rules of investing, the thought being that an investment process entailing Doriot's rules is, by definition, a venture-capital process. According to Doriot, investments considered by AR&D involved (1) new technology, new marketing concepts, and new product application possibilities; (2) a significant, although not necessarily controlling, participation by the investors in the company's management; (3) investment in ventures staffed by people's of outstanding competence and integrity... (4) products or processes which have passed through at least the early prototype stage and are adequately protected by patents, copyrights, or trade secrets agreements [the alter rule is often referred to as investing in situations where the information is proprietary)..." See Bartlett, "Fundamentals of Venture Capital", 1st ed. (Maryland; Madison Books, 1999) at 3.

Mexico, it was traditionally financed and centralized by the federal government, and only recently, had private companies taken a more active role in R&D.[62] In respect of ownership of domestic inventions[63] in Canada and the U.S., domestic residents own most of the inventions,[64] while in Mexico foreign residents own almost 50% of the patents registered in Mexico.[65] As a result of this situation and due to the early stage of the Mexican innovation system, it is primarily foreign countries that will supply in the following 20 years (at least), most of the Mexican technological requirements for its regional or global competitiveness.[66] It would unrealistic if the Mexican policy makers pretended to achieve technological developments in the short or medium term without the money required for R&D and the huge business structures to support them, such as those found in the US. For that reason, the current Mexican economic policy is that of acquisition of technology from abroad in the most effective manner to be applied to the productive sectors for global competitiveness,[67] and at the same time, the giving of proper IP protection.

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[62] "...[m]exico's government dominates science and technology creation and dissemination programs much more completely than do other emerging economy governments. During the past decade, the Mexican government has provided approximately seventy-eight percent of all financial support for domestic science and technology programs. Industry follows with approximately twenty-one percent. Of the federal spending, sixty-three percent is administered by the Secretariat of Public Education, or SEP, which in 1993 provided forty-five percent of its funds to the National Council for Science and Technology, commonly known as CONACYT. The national University, UNAM, received approximately twenty-one percent. CONACYT and UNAM share about forty percent of all federal science and technology funding, effectively concentrating most of the funds into the Mexico City area (OECD 1994)...", See T. Botzman *supra* note 28 at 43.

[63] Inventions patented in their local jurisdictions.

[64] In Canada, more than 20% of Canadian patents belong to foreign resident, while in the US it is less than 10%. See STI Scoreboard *supra* note 56 at 111. In Canada, 6 of the top twenty-five industrial performers of R&D in Canada are from the US such as IBM, Pratt & Whitney and GM. See Niosi *supra* note 58 at 59. Also Canada owns approximately 2.1% of the U.S. patents between the period of 1990-1996.

[65] *Ibid* STI Scoreboard.

[66] "[s]trategy focused on external technology, which became as important or more important than internal technology...", See, Botzman *supra* note 28 at 38.

[67] "...[I]n the period 1983-1991, the state regulations moved away from import substitution and looked to encourage more participation of private enterprises, and to promote formation of risk capital (Aboites,

The commercial necessity of technology transfer

The surplus of Canadian and U.S. technologies along with capital had been exported to the developing world as a result of the need of capital and technologies.[68] For the past 15 years, countries such as Mexico, received technology transfers along with other benefits, like management skills by the way of foreign direct investment (FDI),[69] particularly in the manufacturing industry. However, with the implementation of the new economic policies in which the import substitution system was replaced by a free market economy, as well as, the harmonization of IP laws, the international technology transfers in Mexico had been gradually received other ways, such as through licensing agreements, because of its lower cost compared to FDI.[70]

Notwithstanding the foregoing, it is questionable that every developing and developed country will benefit from transfers of technologies. Also, it has been debated within Mexico, that the technology transfers are not beneficial, since Mexico is reduced simply to paying out royalties. In other words, it is questionable, how any country in the region can win with the international technology transfer. From the international trade theory

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1994). Mexico's strategy now includes importation of technology from abroad instead of trying to develop it entirely in Mexico..." *ibid* at 37.

[68] According to the technology balance of payments of the OECD Scoreboard 2001, Canada and the U.S. are among the main technology exporters. This indicator measures technology balance of payments in international technology transfers such as licenses, patents, know how research and technical assistance. See STI Scoreboard 2001, *supra* note at 56 at 114-115.

[69] "...[c]learly, FDI is one of the most important mechanisms of the productive system in the acquisition of external technological innovations..." *ibid* at 14.

[70] Clearly, technology transfers by the way of licensing is more cost effective than FDI. However, for licensing agreements, it is required that the host country implements a strong IP regime. For more information, See Hill, *supra* note 21 at, 436-442. "...[t]he choice between FDI and licensing is determined by the transaction or governance costs" See Kumar, *supra* note 47 at 32.

perspective, such as the product life-cycle theory advocated by Raymond Vernon (1965),[71] the three countries in North America can derive benefits and mutual advantages in the production and transfer of technologies. With the phenomenon of globalization, it is very difficult to isolate the direct impacts of technology transfers alone without taking in consideration the process of international trade liberalization, the expansion of MNC's, the increasing phenomenon of FDI and the attitude of local governments. However, it seems to be a general consent that liberation of economies brings development and economic growth to the countries involved in the process, especially with free trade arrangements.[72] The empirical evidence shown that the consumption or production of products, processes and technologies in general, developed in source countries like the U.S., will sooner or later end up in other jurisdictions for mutual benefit.[73]

For example, in the field of R&D, it is well known the research performed by the U.S. MNC's in others jurisdictions, cost less. R&D had been performed in Canada at high

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[71] "...[v]ernon argued that the wealth and size of the US market gave US firms a strong incentive to develop new consumer products. In addition, the high cost of US labor gave firms an incentive to develop cost-saving process innovations. ... Over the time, the United States switches from being an exporter of the product to an importer of the product as production becomes concentrated in lower-cost foreign locations." *ibid*, at 135.

[72] See, Carlos A. Promo Braga, Intellectual Property Rights and Economic Development" 2000 published by Technet working Papers, at 44. <http://www1worldbank.org/wbiep/trade/papers2000/bpipr.pdf> [last accessed 6/22/2002].

[73] "[a]nalysis of the relationship between the internationalization of production and the economic development of the recipient nations... [t]he technological spillovers from the activity of foreign MNEs to local firms may assume different forms. First presence of MNEs usually increases competitive pressure on local markets (competition-related spillovers)...labor productivity in domestic industries was positively correlated with the degree of penetration by foreign MNEs in each production sector". See Tommaso Perez, *Multinational Enterprises and Technological Spillovers*, 1st ed. (US; hardwood academics publishers, 1998) at 19, 24 and 44. [hereinafter MNE and Spillovers] But See Bonomo, *Monitoring and Controlling the International Technology Transfer of Technology*, (US, Critical Technologies Institute, 1998) at 5, 6, and 18.

degree levels in pharmaceuticals and chemical industries[74] and in Mexico at less degree levels in industries such as automobile and pharmaceutical industries.[75] In both cases the R&D resulted in mutual benefit. In others fields for example, the case of a Canadian company interested in the manufacture and development in Mexico of a patented process for the construction industry to be commercialized in the U.S. and Mexico or in the rest of Latin America. Another typical example is the U.S. computer programs licensed to Mexican companies (through a wholly-owned subsidiary) for all kinds of business application. In these cases, all countries win in the transfer either by producing a lesser cost (Canada), by receiving royalties (U.S.) or by using technologies (in the case of computer programs used in Mexico) that improve the efficiency required to compete in the global economy.[76] It may be mentioned that, in addition to these benefits, they are the advantages of job creation and associated economic implications.

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[74] 6 out of 25 Canadian corporations with more R&D capabilities are controlled and financed by U.S. entities. Among them are IBM (computers and software) and Merk Frosst Canada (Pharmaceuticals). See Niosi, *supra* note 58 at 59.

[75] "the growing internationalization of R&D activity of MNE's has attracted attention in recent years. The R&D activities of MNE's affiliates now account for a considerable proportion of national R&D expenditure in a number of host countries, for instance,, over 15 percent in Australia, Belgium, Canada, the UK, the USA, Germany, South Korea, and Singapore...[h]owever, the prospects of overseas R&D activity making a significant difference to developing countries is relatively small...[t]he growing neglect of R&D activity by developing countries is going to have serious consequences for their ability to efficiently apply new technologies for their development.." See Kumar, *supra* note 47 at 19

[76] It is estimated by the U.S. department of Commerce that in 1995, 1,235.00 millions of dollars were paid by Canadian companies and 414.00 million by Mexican Companies to U.S. Corporations as technology fees. See *ibid*, at 39

Licensing; a cost effective form of technology transfer

Traditionally, FDI is the most common way of transferring technology in the world.[77] FDI of U.S. MNC's in Canada and Mexico was carrying technology for manufacturing processes in the case of production expansion at less cost. Naturally, the manufacturing process was more accentuated in Mexico than in Canada, first, because of the lower cost of labor under the maquiladora program (1980-1994),[78] and second, because Canada was entering into more sophisticated technological industries. However, in today's economic environment, the transfer of technology is not limited to FDI or similar transfers because of the nature of disembodied technology[79] like computer software, information and communication technologies, that are more likely to be transferred by licensing agreements. Because of the commercial application in virtually every industry and for consumer purposes, these kinds of technologies are very likely to be transferred internationally.

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[77] *Ibid* at 32.

[78] The maquiladora program was a federal program designed for the manufacture of foreign companies, in which foreign investors where allowed to introduce machinery equipment and materials or inputs for the sole purpose of manufacturing and further exportation. These programs were affected by the NAFTA because of the requirement of regional content, bringing a complex problem of complicated origin rules of the final products. For more economic information about the specific inbound programs or the so-called maquiladora program, See Botzan, *supra* note 28 at 79-89.
- Currently, the maquiladora industry is governed by the *Decree for the Development and Operation of the Maquiladora Export Industry* (hereinafter the "Maquiladora Decree") which was published in the Federal Official Gazette on June 1, 1998, and amended pursuant to decrees published on November 13, 1998, October 30, 2000 and December 31, 2000. In addition to the Maquiladora Decree, maquiladoras are governed by special provisions in the *Customs Law* and Regulations and the Foreign Trade General Rules issued by the Ministry of Finance and Public Credit ("Hacienda"), as well as, other laws of general application in Mexico, such as the *General Law of Commercial Companies,* the *General Law of Ecological Equilibrium and Environmental Protection,* the *Federal Labor Law* and the *Social Security Law.*

[79] "[T]he disembodied knowledge is transferred under contracts under which process know-how, product designs, rights to use patented knowledge or copyrighted designs or drawings are transferred by owner to another party for a fee." See Kumar *supra* note 47 at 11.

On the other hand, MNC's activities are not limited to local markets. The huge amounts of capital invested by MNC for R&D in the creation of new products are projected for global markets. For example, once the information and communication technologies are developed, commercialization will occur on a worldwide basis. Similar situations occur with standard products embodying technological innovations.[80] Naturally, the first countries where the new technologies will be commercialized are those within the free trade region where the technology was developed.[81] In other words, the phenomenon of globalization will increase,[82] and therefore, with the harmonization of IP rights and other laws, licensing agreements tend to be a most cost-effective way of transferring technology than FDI within a region, particularly with the new information and communication technologies available in the market where their main source of income are royalties. Accordingly, governments of developing countries, such as Mexico, recognizing the current situation of their economies and low technological development, created compatible laws encouraging all kinds of technology transfers into Mexico for their development and competitiveness. However, the success of law harmonization and adaptation for the global economic integration will depend on its effective implementation.

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[80] Technology incorporated in the designs of tangible products or machines. *Ibid.* Also "[t]he United States traditionally has been seen a country with significant comparative advantage in innovation, reflected in the fact that a higher percentage of its exports contain domestically-generated technologies than those of any other country, far exceeding even Japan." See Trebilcock and Howse, *supra* note, 2 at 311.

[81] One indicator that shows the importance of regional blocks is the one of the OECD region. According to that, the trade in goods in the NAFTA region, represents 29% of all trade in the OECD countries: accordingly U.S. with 20%, Canada with 5% and Mexico with the remaining 3%. See OECD, *Trade in Goods and Services: Statistical Trends and Measurement Challenges*, October 2001, Vol. No. 1, at 3.

[82] If any further major events or World War takes place in the planet.

In conclusion, there can be no doubt about the mutual advantage in the region for the international transfers of technology, even with the disparity of technology production in Mexico, as compared to Canada and the U.S. Mexico seems to be a recipient and a partner in technological business expansion by Canadian or US MNC, either for consumption of products with technological input, for manufacture or for strategically commercial reasons within Latin America.[83] As mentioned in the previous chapter, the harmonization of IP laws is not sufficient for the effective legal protection of technology in North America because its ineffective enforcement brings similar undesirable results as would inadequate IP laws; however, the laws relating to the enforcement of IP rights in Mexico are gradually becoming more effective over time. The progressive effectiveness of the enforcement of IP laws, along with the application of other trade commitments and recent political democratization, can be seen in the statistics of FDI received last year where Mexico was the leader of FDI perceptions on 2001.[84] The gradual effectiveness of IP enforcement will make technology transfers into Mexico by the way of licensing agreements, research and development agreements and other business arrangements much less costly for Canadian and U.S. MNC, than through FDI.

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[83] For example, Delphi has research and development in Mexico for the automobile industry. In respect of technology production, computer-manufacturing activities are held on Tijuana, Baja California.

[84] See El Economista, *México recibio en 2001 la mayor Inversión Extranjera en AL*, ed. 6/19/02 <http://www.economista.comm..2FCDC1E962B06256BDB00798EC5?OpenDocument> [last accessed on 6/19/02]

Part II.- COMPARATIVE ASPECTS OF THE MEXICAN INTELLECTUAL PROPERTY SYSTEM.

Chapter 3: Patents, Trade Secrets and Copyrights in Mexico; a test of legal harmonization

As previously mentioned, most of the substantive IP laws in Canada, Mexico and the U.S. have been harmonized. The main principles of patent protection, trade secrets and copyrights are protected by different structures within the laws of each country in the region, in compliance with NAFTA and TRIPS agreement of the WTO. However, it is important to understand how those principles are structured in the Mexican IP system in order to verify if the main objective of adequate protection can be achieved through these structures. For example, a simple substantive issue may have different effects when the judicial system is involved in solving a controversy. Additionally, as it is well known, international conventions with respect to IP rights usually establish the minimum standards that the signatory countries should incorporate in their laws. Consequently, the harmonization of IP laws is usually in respect of the minimum standards.

On the other hand, the framework of IP laws in each country should be identified in order to clearly recognize the current laws governing the IP rights in the region and some of the substantive differences in each country. Also, other non-IP laws that support the development, implementation and enforcement of IP rights will also be discussed, in particular U.S. laws.

The Mexican Intellectual Property legal frame work

In Mexico, the IP laws are based on the civil legal system, as its whole legal system. The substantive IP law is regulated at the federal level, however, for procedural issues, state laws can also be applicable, as discussed later on this work. The Legislation (or Statue) governing patents and trade Secrets is *Ley de Propiedad Industrial* of 1991 (hereinafter *Industrial Property Law*), which also covers utility patents and designs, trademarks, commercial denominations, geographic denominations and integrated circuits.[85] A different body of legislation governs copyright (*Derechos de Autor*) which is the *Ley Federal de Derechos de Autor* (hereinafter *Copyright Law*). The Copyright Law was enacted on December of 1996[86] and abrogates the last copyright law, which was published in the official gazette on December of 1956.[87]

Other sources of IP law can be the rulings issued by the federal government; however, until recently, no major substantive questions can be found except for procedural and administrative issues.[88] Judicial jurisprudence and precedents issued by the Federal Judicial power are another source of IP law, because, in the case of jurisprudence, it can bind the authorities in respect of the interpretation and omissions of IP laws, and in the

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[85] See *infra* note 94.
[86] The current Mexican Copyright Law was published in the official gazette on December 24, 1996 and shall be applicable in the following 90 days of its publication. See Mexican Copyright Law, *supra* note 14 article *first transitory*.
[87] *Ibid*, *article second transitory*.
[88] See, for the authority of the federal government to issue rulings of the law, the Mexican Constitution, *supra* note 23, art. 89.

case of precedents, they can be used as a valid source of legal interpretation.[89] Nevertheless, currently this source of law is scarce (except for formalities and procedural issues) and most of the jurisprudence and precedents in respect to patents and copyrights refer to the old laws. Additionally, in respect to trade secrets, since is a recent creation of the IP laws, precedents can be only found since 1991.[90]

Patents system

In Mexico, the administrative authority in charge of patent applications, inspections of intellectual property rights, caducity, validity and enforcement issues, is the organism named *Instituto Mexicano de la Propiedad Industrial* (hereinafter IMPI).[91] As explained in Part III of this work, for all enforcement issues, other judicial authorities at the federal and state levels play an important role depending on the nature and the role of the IP rights implicated in every case.[92]

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[89] In the Mexican Constitution and the *Ley de Amparo* are contained the basis of the jurisprudence as a source of law. See Mexican Constitution, *supra* note 23 art. 107.

[90] In respect the new Industrial Property Law of 1991 governing Patents and Trade Secrets, until may 2002, just precedents and jurisprudent exist and most of them are related to procedural issues. Most of the precedents and jurisprudence developed from past laws are not applicable to the current laws. In respect of the New Copyright Laws of 1996, precedents and jurisprudence of the 1956 law can also be useful because the basic principles remain unchanged.

[91] This is commented briefly in chapter 7.

[92] This is commented briefly in chapter 7.

Nature of Patents rights

In Mexico, a patent is also considered a *negative right*[93] that is granted to the patentee (or patent holder), since it consists in the exclusive right to prevent others from using, making, selling or offering for sale a patented invention to others.[94] Therefore, any person requires the express consent from the holder of a patent for its exploitation (e.g., through a license), as explained on chapter IV.[95]

Scope of coverage

The works covered (inventions or *patentable subject-matter*) include "any human creation which permits the transformation of matter or energy in nature, for human use through the immediate satisfaction of specific needs".[96] This definition of the scope of coverage has not yet come into conflict with the Canadian or U.S. patent systems even though the structure is different.[97] However, it should not be problematic in the future because, from the Mexican legal point of view, the NAFTA definition, which includes

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[93] In the sense that the patent do not gave the right to use or sell the patented invention, but it gives the right to prevent others for using or selling the patented invention.

[94] In Mexico, *Ley de la Propiedad Industrial*, published in the official gazette on June 27, 1991, arts. 9, 10 and 25. [Hereinafter, *Industrial Property Law*]. In Canada article 42 related to the grant of a patent, give to the inventor the exclusive right for the term of the patent (20 years) for making, constructing, using and selling to others to be used, See Canada Patent Act, R.S.C. 1985, c. P-4 s. 1 and 42. [Hereinafter *Canadian Patent Act*]. In the United States, Title 35 of the United States Code (U.S.C.) 1952, § 154 [hereinafter *US Patent Act*]. In respect to NAFTA, also the same rules apply and the three countries are consistent on its application. See NAFTA *supra* note 1 art 1709(5)(a)(b). Also see Ramsay *supra* note 9 at 23.

[95] See *ibid*, Industrial Property Law, art. 25. Also see *ibid*, Canadian Patent Act. *Ibid* NAFTA.

[96] In the Mexican Law it is defined in a different manner but the interpretation have similar results. *Ibid*, Industrial Property Law, art.15.

[97] The Canadian system defines the scope of coverage as "...[a]ny new and useful art, process, machine, manufacture or compositions of a matter, or any new and useful improvement in any art, process, machine, manufacture or composition of a matter..." *Canadian Patent*, *supra* note 94, s. 2. In the US works covered are "any process, machine, manufacture or composition of matter as well as their improvements.." See, US Patent Act, *supra* note 94 § 101.

"inventions, whether products and processes, in all field of technology,"[98] binds the interpretation to Mexican courts; therefore there is no room for conflict in the meaning.[99]

Elements of patent protection

Furthermore, another element of the Mexican patent system for patent protection that is consistent with NAFTA, is the fact that inventions should have the basic elements of "*novelty*", should be "*capable of industrial application*" and must be "*unobvious*".[100] Within these elements, other technical issues are involved similarly as in Canada and the U.S. First, the invention should be new and therefore, it should not be publicly disclosed, either in Mexico or in the rest of the world, before its application is filed to the patent authorities.[101] In this respect, there is a twelve-month grace period granted for the inventor, or a representative of the inventor, to file for a patent after a partial disclosure by the inventor.[102] Also, the system is a first to file system, for the purpose to prioritizing inventors. Therefore, the requirement of novelty will be presumed and attributed to the person who files the patent application first.[103] Mexico, as Canada and the U.S., is a

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[98] On NAFTA, the parties state in article 1709:1: "...[s]ubject to paragraphs 2 and 3, each party shall make patents available for any inventions, whether products or processes, in all fields of technology, provided that such inventions are new, result from an inventive...". See, *NAFTA*, *supra* note 1, art 1709:1.

[99] Two rules can be useful to solve an eventual conflict in the meaning of Industrial Property Laws and NAFTA definitions in respect of scope of coverage. First, according to the Mexican constitution article 131, International Treaties are automatic laws in Mexico even without a further enactment as in the U.S. and Canada and have supremacy over domestic laws; consequently, in the event of conflict the treaty meaning should prevail. Second, as a general principle of the Federal Civil Code, a specific rule prevails over a general rule, consequently, if the meaning of patent scope of protection fail to be the same, then the specific rule (NAFTA) prevail over the general rule (Industrial Property Law).

[100] See Industrial Property Law, *supra* note 94, art 16. See also, *NAFTA*, *supra* note 1, art. 1709 (I).

[101] Certain special provisions applied for the case of international treaties, such as the *Patent Cooperation Treaty*. See *Ibid* Industrial Property Law, art. 17-18. Also for Canadian comparison, see, *Canadian Patent Act*, *supra* note 94, s. 28.1 and 78.3. For the US, see *US Patent Act, supra* note 94, §102 (a)-(b).

[102] If a third party publicly discloses the invention, the grace period is not applicable.

[103] See *ibid*, *Industrial Property Law*, art. 39-40. For Canada see, *ibid*, *Canadian Patent Act*, s. 2 and 28.4 (1). For the US, see *Ibid*, *US Patent Act* § 102. Of course, there will be those cases of invalidation and nullification for misappropriation of an invention, and therefore, the corresponding authorities will determine those issues.

member of the Patent Cooperation Treaty (PCT)[104] that allows the inventor to preserve priority for a period of eighteen months by filing only in one country (called the PCT application). So, the inventor can request priority even before filing the application if it can prove that an application was presented within the eighteen months in another member country.[105] This application simplifies the procedure of inventors by giving them time to prepare documentation and to determine which countries may desire patent protection. Currently, the IMPI is cooperating with PCT applications.

In addition to the requirement that the invention (or subject matter defined in the claim) must not be obvious, it is necessary that a person skilled in the art or science of the specific field of the invention, determines or considers that the invention is not obvious on the claim date[106] and in the view of the prior art.[107] The last characteristic is that the invention must be useful; the industrial property law states that the invention shall have

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[104] "...[a] PCT application is an international patent application that is filed according to the provisions of the Patent Cooperation Treaty, which was signed by a large number of countries, including the vast majority of the industrialized countries of the world...[t]his treaty is managed by the World Intellectual Property Organization (WIPO), which has its head office in Geneva..." See *Robic*, General Information on PCT Applications, 03-2001, at 1 and 5.

[105] Industrial Property Law, supra note 94, art 40 and 11th transitory. In respect Canada, on January 1990 and because of the amendment to section 12 of the Canadian Patent Act, See Canadian Patent, *supra* note 94 s. 12 (1)(i). Also, for more details for the Patent Cooperation Treaty implementation in Canada, see the Patent Cooperation Treaty Regulations, SOR/94-284.

[106] See, *ibid*, Industrial Property Law, art 19-VIII. See *ibid* Canadian Patent Act, s. 28.3. See *ibid*, US Patent Law, § 103.

[107] For novelty see *ibid*, Industrial Property Law, art. 12 (I) and 17. Also for doctrinal interpretation Cornish states: "[l]ike novelty, obviousness is judged by the state of the art, excluding, it must be supposed, the same material published in breach of confidence and at international exhibitions. Accordingly, the notional technician will be taken to have in mind, first, the common general knowledge of his art at the priority date and, secondly whatever he would learn from existing literature when seeking an answer to the problem at issue...[o]bviousness is judged by viewing the invention as a whole against the state of the art as a whole". See Cornish *supra* note 4 at 168-169. Also see the test of obviousness: "obviousness exist where there has been [i]exercise of only ordinary mechanical skill; [ii] mere perfecting a quality or workmanship; [iii] mere logical extensions from the teachings of the prior art, [iv] substitution or alteration or modification of known elements, or dimensions, or form; or [v]application of an existing machine or process to an analogous use".. See *Ramsay supra* note 9 at 34.

"industrial application", a term that is consistent with NAFTA's use of "usefulness".[108] This, of course, is one of the most important justifications of the patent protection. [109]

Exclusions

Like most patent systems, and consistent with NAFTA, Mexico has exclusions of patentability at two levels. First, there is a general exclusion of patent protection of inventions that violate public order or morals. This general exclusion is, indeed, broad, and there are a lot of philosophical and cultural concepts that can influence its application. Nevertheless, it is a very important exclusion considering that the dynamics of technology can distort the main purposes of patent protection, such as development and common wealth. Second, the patent system has specific exclusions of patent protection with respect to certain inventions.

It is in this specific exclusion where Mexico demonstrates the main substantive differences as compared to Canadian and U.S. patent systems. In Mexico, computer programs are definitely excluded from patent protection,[110] whereas in Canada and the U.S., it is possible to obtain a patent protection, in certain situations.[111] Also, medical

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[108] See *ibid*, Ramsay at 34. Also the Industrial Property law defines the industrial application as "the possibility of an invention of being used or reproduced in any field of economic activity" See, *ibid*, Industrial Property Law, art 12 (IV), 16. *Ibid*, Canadian Patent Act, s. 2. In respect the US, see requirement named "the utility requirement", US Patent Act, *supra* note 94 § 101.

[109] See explanations of chapter 1 *supra* notes, 25, 26 and 27.

[110] *Ibid*. Also Industrial Property Law, *supra* note 94, art 19 IV.

[111] "[a]lthough not stated explicitly in the US Code, a live human-made microorganism is patentable under 35 U.S.C. § 101..." See Comparative Analysis IP US-Mexico *supra* note 36 at 161. "..[u]ntil recently, the exclusion of scientific principles was considered sufficient to deny patent protection for computer programs because they were made up of algorithms {i.e., mathematical formulae}. In 1994, the Canadian Patent Office released new rules that will broaden its previous position concerning the patentability of computer programs and will now allow patent protection for computer programs to the extent that the claims of the patent are not "unapplied mathematical formulae" that are "considered equivalent to mere scientific principles or abstract theorems which are not patentable..."" See also Ramsay, *supra* note 9 at 28-29.

treatment, diagnostic processes and plant reproductions are excluded from patent protection in Mexico.[112] Other inventions that do not fall into the scope of patent protection are life forms, including biological processes for the production of animals and plants, and biological material. The Canadian system also does not offer protection for life forms except for plants.[113] By contrast, in the U.S. patent system, the U.S. Supreme Court has held that, in certain circumstances, it may be possible to obtain a patent for life forms.[114]

Furthermore, the Mexican system did not address the patentability of inventions involving microorganisms and microbiological processes, and there was no judicial precedent or administrative guideline clarifying this situation,[115] until the Mexican accession in 2001 to the Budapest Treaty of 1977, concerning the patentability of microorganisms. Mexico can now grant a patent in respect of inventions involving microorganisms, considering the fact that, in Mexico, international conventions signed by the president and approved by the Senate are considered domestic law without further enactment, unlike Canada and the U.S.[116]

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[112] See *Industrial Property Law*, *supra* note 94, art 16, 19-VII.
[113] In fact, plants are not protected by the Canadian Patent Act but by the *Plant Variety Protection Act*. "...[t]o date, no patents dealing with multi-cellular organisms have made their way successfully through the Canadian Patent Office. The only multi-cellular organisms being protected are the plant species protected under the Canadian Plant Breeder's Rights Act {PBRA}, administered by Agriculture and Agri-Food Canada..." See College of Agriculture of the University of Saskatchewan, Consultable online < www.ag.usask.ca/centres/csaleopaper5.PDF > Last accessed July 2, 2002. But see Industry Canada, *Background economic study of the Canadian Biotechnology Industry,* subtitle "Scope and Types of Patent Protection" at 6.0 and 6.1.2. Consultable online < http://strategis.ic.gc.ca/SSG/ip00122e.html#p61 >
[114] See Ramsay *supra* note 9 at 27.
[115] Industrial Property Law, *supra* note 94, arts. 16 and19.
[116] See Mexican Constitution, *supra* note 23, art, 131.

Disclosure

As in most patent systems, once the invention is submitted to the IMPI for a patent protection, there is an obligation to disclose all the technical and necessary information, formulae and prior art in order to enable the general public (or an expert in the field) to put the invention into operation.[117]

Ownership

In respect of ownership of the invention, the general rule is that the inventor is presumed to be the owner of the invention. However, employees whose main occupation is to invent, do not have ownership of the invention; the invention belongs to the employer. It is important to mention that the Federal Labor Law, that is traditionally pro-employee, also recognizes this.[118] Additionally, the possibility of co-inventors and co-ownership is permitted in Mexico, as are total and partial assignments of the patented technologies.[119] Co-ownership in Mexico, however, may be problematic with respect to the control of the independent exploitation of a patent.[120] This results because co-ownership issues in Mexico are similar to the U.S., and not Canada, since in Mexico, the co-owner can

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[117] The Industrial Property Law states that: "... the description of the invention, should be sufficiently clear and complete to allow the full comprehension of it, and as the case made be, to guide its implementation through an expert or skilled person in the field...", Industrial Property Law, *supra* note 94 art. 47(I). See, Canadian Patent Act, *supra* note 94, s. 27 and 34.

[118] Labor Law in Mexico is a strong achievement of the social classes during the revolution of 1910's, and after that, a tool of the politicians (through labor unions) of the former government, PRI. Consequently that law was traditionally anti-right wing and normally should have been reviewed for all kinds of economic activities. Currently, the Federal Labor Law is consistent with IP laws because it states that: (1) the inventor has the right to place his name on the invention; (2) if the main purpose of the job is to invent or to improve a process or machine, the invention belongs to the employer, however, the employee has a right of compensation if the benefit of the invention has no proportion to the salary perceived by the employee; in any other case, the invention belongs to the persons involved and the employer has priority in obtaining a patent. See, *Ley Federal del Trabajo*, published in the official gazette on April first, 1970, as amended until 1998, art, 163. [Hereinafter Federal Labor Law]

[119] The assignment shall be registered in the IMPI. See Industrial Property Law, *supra* note 94, art. 62.

[120] *Ibid*, *Industrial Property Law*, art 10 Bis. Also see, *Canadian Patent Act*, *supra* note 94, s. 31 and 52. See, *US Patent Act*, *supra* note 94§ 102 (f).

exploit his or her ownership directly or through third parties without further authorization. This idea has also been confirmed in the U.S. case law (e.g., *Schering Corp. et al. v. Roussel*).[121] By contrast, in the Canadian system a co-owner of a patent cannot exploit a patent independently through third parties (e.g., by license) without the consent of the other partner.[122] This limitation in the Canadian patent system, however, does not apply for the direct exploitation of one co-owner and for absolute transfer of the ownership (*Forget v. Specialty Tools*).[123] Therefore, for obvious reasons, contractual arrangements should be made prior to developing an invention, if the invention is to be exploited in Mexico.

Compulsory licenses

One of the most controversial issues from the perspective of certain developed countries is the treatment of compulsory licenses in developing countries. Historically, Mexico (before the 1991 Industrial Property Law) had a broad scope for granting compulsory licenses, and this was one of the reasons for concern by investors and technology transferors.

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[121] See *ibid*, US Patent Act, § 262. See also comments on the cases of *Schering Corp* and the case of *Ethicon, Inc.* in respect of ownership and consent of the other party for exploitation. Kathleen, *Implications of Joint Ownership of Patents*, (Journal of the Association of University Technology Managers, Inc. 1998 Volume X.

[122] See comments and annotations on co-ownership of patents, in respect to section 31 of the Canadian Patent Act and the case dictated by the British Columbia Supreme Court, stating that: "...[a] coowner may not license a third party without the consent of the other owner. Any such license purported to be granted is invalid..."; Canadian Patent Act, *supra* note 94 at s. 97.

[123] '...[a] co-owner may exploit the patent through the activities of that co-owner, and may absolutely assign that right, but may not independently attempt to exploit the patent through the acts of others (licensees) without the consent of the other owner." *Ibid* Canadian Patent Act.

Compulsory licenses ("... an involuntary contract between a willing buyer and an unwilling seller imposed and enforced by the State") [124] still exist in the Mexican Patent Law, although in very limited form. This type of license is also regulated through some NAFTA provisions (arts 1709:10 §§ (a)-(f))[125], which restricts government interventions, allowing for greater economy activity in respect of foreign investors and more certainty that investments and technologies will be exploited in Mexico.[126] Currently, the compulsory license is only limited to a misuse or non-exploitation of the patented invention for a term of 3 years from the date of the grant of the patent, or four years from the filing date of the application, whichever is later.[127] Other cases of government intervention are related to situations of extreme emergency, where such cases will be handled as any other case of emergency and national security.[128] Despite scholarly critisisms[129] and the U.S. Industry claims[130] about the existence of compulsory licenses, the fact is that, according to NAFTA and the TRIPS agreement, compulsory licenses are

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[124] "...[a] compulsory license is an involuntary contract between a willing buyer and an unwilling seller imposed and enforced by the state..."See, *Licensing in Mexico*, *supra* note 33 at 1.

[125] Where the Law of a party allows for use of the subject matter of a patent, other than use allowed under paragraph 6, without authorization of the rights holder, including use by the government or other persons authorized by the government, the party shall respect the following provisions: (a) authorization of such use shall be considered on its individual merits; such use may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and such efforts have not been successful within a reasonable period of time. The requirement to make such efforts may be waived by a party in the case of a national emergency or other circumstances of extreme urgency or in cases of public non-commercial use. In situations of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable...;(c) the scope and duration of such use shall be limited to the purpose of which it was authorized; (d) such use shall be non-exclusive; (c) such use shall be non-assignable, except with that part of the enterprise or goodwill that enjoys such use; any such use shall be authorized predominantly for the supply of the party's domestic market;..." See NAFTA *supra* note 1 art 1709:10 §(a)-(f).

[126] "...[t]he 1991 Industrial Property Law and NAFTA indicate to US business that they should have less fear about their investments being subjected to compulsory patent licensing in Mexico..." See Ibid *Licensing in Mexico* at D.

[127] See Industrial Property Law, *supra* note 94 art, 70.

[128] Ibid, art 77.

[129] See, *Nafta and IP Protection, supra* note 39 at 119.

[130] See, *Licensing in Mexico*, *supra* note 33 at D.

included in the law of the three countries in North America.[131] Additionally, the Mexican government has made it clear that compulsory licenses will be used only in extreme cases, as specified by the law; even today, there has been no evidence of governmental abuse in the issuance of compulsory licenses.

Duration

It may be noted that the duration of patent protection since the initiation of the Industrial Property Law is 20 years,[132] a period that has generally been shorter in previous legislation, but which has been extended as a result of consistent pressures from the developed countries.[133]

Copyrights

First of all, Mexico is a member of the Berne Convention since 1977,[134] and, confirmed its obligations through its signature in NAFTA and the TRIPS Agreement of the WTO to implement copyright in its legislation.[135] Since the previous Copyright Law of 1956, the basic elements of protection: originality, creativity and fixation, were included in

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[131] *Ibid.*
[132] See, *Industrial Property Law*, *supra* note 94, art 23.
[133] See, *IP Harmonization in Latin America*, *supra* note 38, at III (4).
[134] Convention for the Protection of Literary and Artistic Works concluded at Berne on September 9, 1886 and amended (Paris Act of 1971)
[135] The signature members compromised to meet the criteria for eligibility for protection provided in the Berne Convention regarding copyrights. See TRIPS *supra* note 8 art. 1 (3), 2 (2), and 3 (1). See also NAFTA *supra* note 1 at 1701 (2) (b). For the Mexican Legislation, see *Ley de Federal Derechos de Autor*, published in the official gazette on December 24, 1996. [Hereinafter *Copyright Law*] The current Mexican law abrogates the last copyright law that was published on the official gazette on December of 1956. See similarities in Canadian legislation, Copyrights Act, RSC 1985, C. c-42, [hereinafter *Canadian Copyright Act*]. For legislation of the US regarding copyright, see 17 U.S.C.A §101. [hereinafter *US Copyright Act*].

Mexican law.[136] However, prior to the NAFTA Agreement, Mexico did not have copyright protection for software and computer programs. Today, the Copyright Law of 1997 expressly includes computer programs and software.

Elements of protection

According to Mexican Copyright Law, both originality and creativity should be examined when interpreting whether an original work was independently created and thus, not copied from the work of another. In other words, the work must not be inventive, as in the case of patentable inventions,[137] but it only requires a unique form of expression.[138] In respect of the fixation, copyrights only give protection on the expression of ideas and not on ideas *per se*; therefore, copyrights should be coupled with original forms of expression and should be fixed in some fashion.[139] Consequently, the essentials of protection in Mexico for copyrights are harmonized with Canadian and U.S. principles, even though their structure is presented in different forms.

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[136] See, *ibid* Copyright Law, art. 3. See also Canadian Copyright Act, s. 3. (1) (1.1), 5. (1). See *ibid* US Copyright Act, § 101.

[137] For fixation, see *ibid*, Copyright Law, art. 6. Also see Ramsay *supra* note 9 at 55.

[138] See, *ibid*, *Copyright Law*, art 3. and 10. This is in relation to the literal meaning of the word *original*. According to the Federal Civil Code, the meaning should be its literal sense. See the Federal Civil Code published in the official gazette on October 1, 1932, arts 19 and 1851. Also, for further illustration, see in the Canadian Law definitions of ""works"...when original and distinctive"; See Canadian Copyright Act, *supra* note 136, s. 2.

[139] See also Mexican Law which expressly states, "...[t]he protection conferred by this law is granted since the works are fixed in any material form...[f]ixation is the incorporation of letters, numbers, sound, images...in any material support, including the electronics, by allowing its perception, reproduction or any way of communication... [s]hall not be protected by copyright provided in this law...ideas as such" *ibid*, Mexican Copyright Law, arts. 5, 6 and 14, fracc. I. Also the US law states: "[o]riginal works of authorship fixed in any tangible medium of expression, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.." See US Copyright Act, *supra* note 135, § 102 (a) (b) and definition on §101. See *ibid*, Canadian Copyrights Act.

Works covered

The works covered under copyright include literary works, musical works, artistic works (including dramatic, dance, pictorial, graphic, sculptural and architectural), computer programs, cinematographic works, compilation and collective works and broadcasts. Some other rights are extended to the multiplicity of works, such as compact music, computer animated-short movies, internet broadcasts and multimedia.[140] Therefore, with the addition of the protection of computer programs, the scope of protection in Mexico is consistent with the Canadian and U.S. copyrights laws.

Registration

The protection of copyright extended to authors is conferred by virtue of legislation. Therefore, once the work meets the criteria of protection, the work is automatically protected by copyright.[141] In other words, there is no need for registration in order to be protected, as is the case for patent protection. However, Mexico, like Canada and the U.S., has implemented a registry[142] for the benefit of the authors or the beneficiaries of economic rights, in order to provide them with legal certainty against third parties. Furthermore, there is an obligation to register the works to prove ownership in the event of an action against third party infringements.[143]

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[140] See *ibid*, Copyright Law, art 13. Also see *ibid*, Canadian Copyright Act, s. 5(1). See *ibid*, US Copyright Act, §102 (a).

[141] See *ibid*, Copyright Law, art. 5 and 6. It is stated in the Canadian law, subchapter titled "Conditions of subsistence of copyright...[s]ubject to this act, copyright subsist in Canada, for the term hereinafter mentioned, in every original literary..."*Ibid* Canadian Copyright Act, s 5 (1). See *ibid*, US Copyright Act, § 41 (a).

[142] In Mexico, copyrights can be registered in the *Registro Publico del Derecho de Autor* (Copyright Public Registry) See *Ibid*, *Copyright Law*, art. 162.

[143] In respect Mexico, see *infra* note 200. In Canada, it is not necessary but convenient to set precedent or to start an action to "enforce copyrights in court". See *Ramsay*, *supra* note 9, at 53. "It is just evidence if it is certified by the commissioner of patents in Canada, the register of copyrights or an officer... It proves

Ownerhsip

As a general rule in Mexico, the author of a work is presumed to be the first copyright owner of that work.[144] In the case of employment, when the employee is hired for the purpose of creation, the employer has economic benefits, unless the contrary is stipulated, despite the fact that the employee has the right to fair compensation, which has not been defined in the law.[145] This situation can bring about judicial uncertainty. While co-ownership and external contributions to the copyrighted works are also contemplated in Mexico, it is without specific rules for the division of profits on exploitation. Therefore, it is recommended to draft written assignments concerning all the external persons or contributors in order to avoid problems with exploitation. In this respect, it is important to mention that co-owners can exploit independently, directly or through third parties, and the work is covered as in the case of patents.[146]

Economic and moral rights

The rights of the owner (or author) in Mexico are clearly divided into economic rights and moral rights. The former includes the sole right to produce or reproduce the work or part of it in any material form whatsoever, to perform or to deliver the work in public, or if not published, to publish it (or any translation of the work), to rent the work, to sell,

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ownership". Conference of B. Sotiriatis at McGill University, on the Class Complex Legal Transactions (Trade Secret and Technology Transfer, January 2002).

[144] See Copyright Law *supra* note 135 art. 12. See, Canadian Copyright Act, *supra* note 135 s. 13. (1). Also see, US Copyright Act, *supra* note 135 § 201 (a).

[145] See *ibid*, Copyright Law, art. 31. See *ibid*, Canadian Copyright Act, s. 13 (3).

[146] See *ibid*, Copyright Law art. 77-84. Also *ibid*, Canadian Copyright Act s. 13, 55-8. See *ibid*, US Copyright Act, §

import, or offer it for sale, and to authorize such acts.[147] Moral rights include the right of paternity, which is always associated with the author's name or pseudonym, the right of integrity, which may be infringed in the case of distortion or mutilation, the modification of the work, and the right of citation consisting in the obligation (especially third parties) to cite the work every time it is reproduced.[148] In Mexico, as in Canada, moral rights cannot be assigned but may be waived; however, economic rights can always be transferred.

Exceptions

Additionally, the Mexican system lists certain exceptions in respect of activities, such as private study and research, educational purposes and news reporting.[149] Mexican copyright law entitles this list as *limitations to economic rights*, whereas, in Canada, it is presented as *Fair Dealing* and in the U.S. it is known as *Fair Uses,* as exceptional cases of infringements. In the Mexican system as in Canadian system, the list of limitations is presented in simple terms, simply by naming the specific activity.[150] However, in the Canadian system, some of the exceptional activities can also be measured by the intention of the person who copied a protected work[151] (in broad sense) and by the cost of recovery

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[147] The Copyright Law states: "... [b]y virtue of the economic rights, the copyright owner has the exclusive right to exploit the works, or to authorize others...[t]he owners of the copyright can authorize or prohibit: reproduction, publication..."See *ibid*, Copyright Law, art 24, 27-29. In respect of the Canadian law: "...[t]he sole right to produce or reproduce the work or any substantial part thereof in any material form whatever, to perform the work or any substantial part thereof in public or, if the work is unpublished to publish the work..." See *ibid*, Canadian Copyright Act s. 3 and 27 (2). See also, *ibid*, US Copyright Law § 106.

[148] See *ibid*, Copyright Law, art 18-21. See *ibid*, Canadian Copyright Act, s. 14.1 (1) (2). US Copyright Act, § 106 A..

[149] See Canadian Copyright Act, *supra* note 135, s. 29-29.9

[150] See, Copyright Law, *supra* note 135, art 148-151.

[151] See Canadian legislation; "[n]o action referred to in section 29.4, 29.5, 30.2 or 30.21 may be carried out with motive of gain." Canadian Copyright Law, *supra* note 135, s. 29.3 (1)

for the person who reproduces a work.[152] By contrast, in the U.S. Copyright Act, the exception for infringement (*Fair Uses*) is presented as a broad definition without expressing specific activities that would entail exceptions to infringement.[153]

Also, another distinctive feature of the Canadian copyright system, as compared to the U.S. perspective, is in respect of the limitation of exclusionary rights: the cultural exception in the Canadian system allows the reproduction of certain works in educational institutions, libraries and museums under specific guidelines.[154] These exceptions are also regulated by NAFTA,[155] despite the fact that certain U.S. authors have alleged that such cultural exceptions should be disallowed because they are too broad.[156]

Other remarks

The duration of the copyright protection in Mexico lasts, in general, for the life of the author plus fifty years. The term of fifty years will typically begin in the next calendar year after the death of the author.[157] In respect of the territory of protection, the geographic area of protection includes not only the local jurisdiction, but also other jurisdictions in which reciprocity exists by way of international treaty or other

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[152] On educational institutions, museums and other activities enlisted, the person acting under its authority should not recover more money than the cost of the associated with doing the reproduction of the work protected. *Ibid*, 29.3 (1)

[153] The US Copyright Act provides that, "[I]n determining whether the use made of a work in any particular case is a fair use, the factors to be considered shall include: (1) the purpose and the character of the use, including whether such use is of a commercial nature or is for non profit educational purposes; (2) the nature of the copyrighted work; (3) the amount and substantiality of the portion used in relation to the copyrighted work as whole; and (4) the effect of the use upon the potential market for or value of the copyrighted work. See US Copyright Act, *supra* note 135, § 107. .

[154] Exceptions of this type can be found in the Copyright Act, such as the machines installed in educational institutions, libraries, archives and museums. See Canadian Copyright Act, s. 30.3-30.5

[155] See NAFTA, *supra* note 1, art 1705: (5)

[156] See, "The Weaknesses of NAFTA", in Harmonization of IP in Latin America, *supra* note 3 at IV-B.

[157] See Copyright Law, *supra* note 135 art 9, 122, 127, 134, 138. See Canadian Copyright Act, *supra* note 135, s. 6.1. See US Copyright Act, supra note 135, § 302.

organisms.[158] For example, if an author or copyright owner is a national or has an address in a country that has signed either the Berne Convention or the Universal Copyright Convention of the TRIPS Agreement of the WTO, that author is protected in Mexico.

Finally, compulsory licenses are restricted to those cases where the author or the holder of the copyright does not permit the publication or exhibition of the work upon the payment of a fair market value for such publication.[159]

Trade Secrets

Protection of trade secrets in Mexico provides basically the protection under the same criteria as in Canada and the U.S.,[160] even though different legal mechanisms make up the legal structure in each country. As mentioned, currently trade secrets are regulated by the *Industrial Property Law,* which was enacted at the federal level by the congress, in an attempt to harmonize trade secrets within all of Mexico and, at the same time, with

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[158] According to the Mexican Law: "[f]oreign authors or copyright owners and their transferees shall enjoy the same rights as nationals, in the terms of this law and the international treaties on copyrights and accessory rights subscribed and approved by Mexico" See *ibid*, Copyright Law, art 7-8. The Canadian law states: "[c]opyright shall not subsist in Canada otherwise than as provided by subsection (1), except in so far as the protection conferred by this Act is extended as hereinafter provided to foreign countries to which this Act does not extend." See *ibid*, Canadian Copyright Act, s. 5 (1) (1.01) –(1.03) (2) (7). Also according to the US Copyright office (October 1993), see Gutterman *supra* note 9, at 67.

[159] *Ibid*, 147.

[160] "[N]o distinction except for formal regulation..." See *Comparative IP Analysis Mexico-US*, *supra* note 36, at 166. See also Ibid at III (F). In Mexico the technical word is *Industrial Secret.* Other legal implications can be obtained from the Federal Civil Codes in the cases of federal applicability or the State Civil codes of any of the 32 Federal States of the Union. The Industrial Property Law has considered trade secrets (*Secretos Industriales* or industrial secrets) as follows: "[I]t is considered industrial secret any information of industrial or commercial application withheld by any natural person or entity as confidential, that implies a competitive or economic advantage in respect to third parties in the performance of economic activities, provided that where adopted sufficient measures and systems to preserve the confidentiality and its access to the information." See Industrial Property Law, *supra* note, 94 at 82. In respect to the Federal Civil Code, any kind of obligation agreed by the parties, such as confidentiality agreements is valid, as long as they do not contradict the public order. See Civil Code *supra* note, 13, art 1792-1797.

Canada and the U.S.[161] Nevertheless, even before the existence of trade secret regulation in its current form, other features of secrecy, privacy and fiduciary duties could still be found in the state civil codes, although they were not as effective as the current regulation because precedents and jurisprudence in that respect are not as developed as in Canada and the U.S.[162]

Also while the federal labor law contains some features of fiduciary duties pertaining to trade secrets, it is favorable to employees. However, in the case of infringement of trade secrets, the right holder can simultaneously enforce trade secret violations in different courts and under different causes of action.[163]

Scope of protection

Currently, the Mexican Industrial Property Law, consistent with those in Canada and the U.S., provides protection to almost all kinds of information as trade secrets as long as it is kept confidential and has an economic value.[164] In respect of the confidentiality of the information, it must not be generally known by the public, and only known to the persons

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[161] Before the existence of trade secrets in the Industrial Property Law, it would be problematic to the right holder to have effective enforcement in the whole country because the criteria would change from state to state. Also, there was no uniformity in the penalties and compensation as it is with the current law.

[162] The civil codes contain obligations related to fiduciary duties, such as obligations arising from illegal acts (arts 1910-1915), and unjust enrichment (article 1882). See, *Licensing Operations in Mexico*, *infra* note 195, at 12-13.

[163] *Ibid.* Also in respect of the civil codes see chapter 9.

[164] In Canada Trade Secrecy are regulated at the provincial level, and all of the provinces have passed a special body of legislation covering trade secrecy. However, trade secrecy is regulated by common law in all provinces except for Quebec; in the civil law system, trade secrecy is covered by the civil code pertaining to "Property and Civil Rights". See Licensing Law Handbook, Canada, Chapter 2 at 73. Obtained from the Complex Legal Transactions (Trade Secrets and Technology Transfers) case book, McGill University Faculty of Law, 2001-2002 at 135. See also Ramsay, *supra* note 9, at 106. In the US, Trade secrets is almost always regulated at the states level, see "[I]n some states, trade secret law arises from common law. [I]n these states, the law is based upon the Restatement of Torts (1939)...others...on the Uniform Trade Secrets Act...drafted by the national Conference of Commissioners on Uniform State Law and adopted in 1979" See Gutterman, *supra* note, 9, at 75.

who normally deal with the information in question.[165] Also, the information should have actual or potential economic value, and its value should be directly related to the secrecy of the information. An important difference in Mexican law in respect of trade secrets is that the legislation expressly states that the information should be recorded on, or in documents, electronic or magnetic means, optical disks, and microfilms or similar instruments.[166] Consequently, oral communication is not protected by the Industrial Property Law, but only by civil codes. Lastly, the person lawfully in control of the information must take reasonable steps under the circumstances to keep the information secret; otherwise, the law will not offer trade secret protection.[167]

Transmitting the information

On the other hand, the information protected under trade secrets in Mexico can be transmitted to third parties without losing its characteristic of secrecy, provided that, in the agreement (confidentiality agreements), the recipient of the information is bound by a clause to keep the information confidential.[168] Furthermore, the Industrial Property Law provides strong and broad protection by including fiduciary duties that were not adequately protected under the civil codes and the federal labor laws, by clearly stating that employees or others persons, such as consultants, lawyers or accountants who have access to confidential information without permission from the right holder, would be

[165] See *ibid*, Ramsay at 108-109. See also M. Goudreau, Protecting Ideas and Information in Common Law Canada and Quebec, (Intellectual Property Journal, 1994). See Ibid, Industrial Property Law, at 82 second paragraph. See also *ibid*, Gutterman.
[166] *Ibid*, Idustrial Property Law, art 83.
[167] See *ibid*, Industrial Property Law, art 84.
[168] *Ibid*. "the three elements of the Trade secrecy according to the US Law, novelty, secrecy and value are met on the Mexican Law on its article 82." See Analysis of IP Law US-Mexico, *supra* note 36, at 166.

responsible for damages if they disclose the information, even in the absence of a confidentiality agreement.

Other remarks

Perhaps the inclusion of trade secrets in the industrial property law is the most aggressive change in the IP laws within the Mexican system. Since a lot of the technology transferred into Mexico is protected by trade secrets, there was a strong need for such protection.[169] Additionally, as discussed in Part III of this work, in respect of enforcement from the civil law perspective, there is a special provision for damages and compensation, and from the criminal perspective, the penalties are severe. From a legal cultural perspective, in Mexican commercial activity, there is no clear sense yet of what the concept of trade secret entails, and traditional institutions, such as secrecy and fiduciary duties, are impaired because in several occasions, they conflict with certain constitutional principles, such as free exercise of profession.[170] However, the strong regulation of damages and penalties stipulated in the law will gradually become more effective.

Canadian IP Law framework

The Canadian legal system is based on the common law system that derived directly from Great Britain, except for the province of Quebec, where the civil law system, as it was derived from France, governs civil and private rights issues. Among the nine common law provinces, decisions of other common law provinces or Great Britain may guide a

[169] See, *Licensing Operations in Mexico*, infra note 195, at 2-d.
[170] See *infra* note 195.

judgment as a persuasive antecedent in cases where the Supreme Court of Canada has not ruled on a specific issue.[171] According to the Canadian Constitution, the federal government has exclusive legislative jurisdiction in respect of patents and copyrights,[172] enacting for this reason the Patent Act of 1985[173] and the Copyright Act of 1985,[174] respectively.[175] On the other hand, trade secrets are regulated at the provincial level, and consequently, in the common law provinces trade secrets are regulated by common law of the corresponding province, by other common law provinces,[176] or by the United Kingdom decisions, while the province of Quebec, regulates trade secrets through its Civil Code.[177]

USA IP law framework

Regarding the U.S. substantive legal system, some of the main differences in IP protection were commented upon above. However, it is worth mentioning that the Title 35 of the United States Code (U.S.C.), 1952,[178] regulates patent laws, and the authority in charge for patent filing applications and other substantive issues in respect of patents is

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[171] See Licensing Law Hand Book, Chapter 2 "Canada" from the Case Book of Complex Legal Transactions, Trade Secrets and Technology Transfers, McGill University at 77. [Hereinafter licensing Hand Book].
[172] *Ibid.*
[173] The Patent Act, R.S.C. 1985, c. P-4, See Canadian Patent Act, *supra* note 94.
[174] Copyright Act, R.S.C. 1985, c. C-42, See Canadian Copyright Act, *supra* note 135.
[175] See Ramsay *supra* note 9 at 23, 47-48. See, Gutterman, *supra* note 9 at 84.
[176] ""...[T]rade Secrets defined – Nine common law provinces...[t]he Canadian common law protecting trade secrets may be summarized as follows: "...[I]f a defendant is proved to have used confidential information, directly or indirectly obtained from plaintiff, without the consent, expressed or implied of the plaintiff, he will be guilty of an infringement of plaintiff's rights..."" See Licensing Hand Book *supra* note 171, at 77.
[177] "...[n]o major differences exist in the basic principles applied in the Province of Quebec as compared to the other Canadian provinces. However, in the view of the differences in Quebec's legal system, the basis upon which these legal principles are founded are different...[t]he Quebec Act of 1774 established English common law as the fundamental basis of the legal system but provided that all matters relative to property and civil rights would be decided according to French civil law..." *Ibid.*
[178] *Supra* note 94.

the Patent and Trademark Office, United States Department of Commerce.[179] Title 17 of the United States Code of Commerce 1976 regulates copyrights.[180] Both, the patent and copyright regimes are regulated at the federal level, and States had no jurisdiction over these issues. On the other hand, trade secrets are not regulated at the federal level, but at the State level, in some cases by statute or common law.[181]

On the other hand, it is worth mentioning that the U.S. has implemented other bodies of laws directly affecting IP rights and regulations within the U.S., and in certain cases, beyond the U.S. Perhaps, the most important examples are the U.S. competition laws (or anti-trust laws): the so-called "Special 301" provision of the Omnibus Trade and Competitiveness Act of 1988; and Section 337 of the US Tariff Act of 1930. Hence, a brief explanation of their implication on IP rights and transfers follows (competition laws will be discussed on chapter 5 of this work).

Concerning the Special 301 provision, a provision contained on the Omnibus Trade and Competitiveness Act of 1988,[182] it is, in fact, extra-territorial in nature in respect of the protection of IP rights in other countries. Special 301 presumes that any country with an inferior level of domestic IP protection than in the U.S. is engaging in unfair trade practice and, consequently, the U.S. government can follow trade retaliation.[183] On this

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[179] *Supra* note 94.
[180] *Supra* note 135.
[181] See IP analysis US-Mexico, *supra* note 36, at IV.
[182] The Omnibus Trade and Competitiveness Act of 1988, provide the possibility of trade sanctions against those countries that engage in unfair Trade practices. This legislation had been used by the U.S. administration to obtain trade concessions from other countries. See Trebilcock and Howse *supra* note 2 at 318.
[183] Under this provision, the U.S. usually releases a special report on Intellectual Property, listing those countries presumable with low standards of IP protection. Surprisingly, Canada is included in the April

basis, the U.S. has obtained trade negotiations in the past, similar to the negotiation and creation of TRIPS Agreement of the WTO.

Finally, Section 337 of the U.S. Tariff Act[184] is another unilateral action of the U.S. trade remedy law in respect of IP protection in other countries.[185] The scope, however, is much more reduced than the Special 301, due to the fact that it only allows U.S. Customs to prohibit the importation into the U.S. of merchandise that is produced in violation of IP rights granted in the U.S.[186] Nevertheless, and despite the strong international criticism directed at this provision because of its retaliatory trade remedies,[187] some countries, such as Mexico, have created the same kind of customs provisions, albeit with reduced international impact (due to the differences between the U.S. and Mexico in their markets dimension).[188]

2002 *Special 301 Report*, listed along with other 48 US trading partners, identified as "significant concerns with the level of IP protection". On the other hand, in respect of Mexico, the report states: " The report does not list Mexico as a country of significant concern but says that Mexican enforcement continues to need improvement and that USTR will conduct an out-of-cycle IPR review of Mexico later in 2002". See US Department of State, International Information Programs, US Releases Special 301 Report on Intellectual Property, April 30, 2002. Consultable online < http://usinfo.state.gov/topical/econ/ipr/02043007.ht > (last accessed on June 06, 2002).

[184] Section 337 of the US Tariff Act as amended.

[185] Howse and Trebilcock, *supra* note 1 at 317.

[186] Title 19 of the United States Code § 1499 provides the requirement and the authority of the customs agents to verify the imported merchandise and its compliance with tariffs and non-tariffs laws, such as the intellectual property laws and if necessary to enforce administrative and criminal laws in that respect. On the other hand, the customs regulation provides a guide to customs agents to enforce these laws, specifically the Title 19 of the Customs Federal Regulations Part 133. T. Trainer, *Border Enforcement of Intellectual Property*, 1st. ed. (NY., Oceana Publications, 2000) at 5, 10, and 16.

[187] See Howse and Trebilcock *supra* note 2, at 318-319.

[188] Almost 250 millions of U.S. residents with an average annual purchase parity power (PPP) of 28,000 US dollars, compared to a market of 100 million Mexican residents with an average of PPP of approximately 8,000.00 dollars, denotes a big difference in market size and, consequently, the Mexican market is not as effective tool as the U.S. market in negotiations of trade agreements. See Hill *supra* note 21 at 47.

Chapter 4: Deregulation of technology transfer in Mexico

As mentioned in Chapters 1 and 2, one of the most cost effective forms of technology transfer in Mexico is licensing agreements, along with other forms of technology transfers, such as foreign direct investment (FDI), joint ventures, franchise agreements and technical assistance agreements. The traditional criticism about the Mexican technology transfer policy was based on the fact that the federal government, prior to the creation of the new Industrial Property Law of 1991, would usually intervene in licensing operations, by requiring registration of the license on pain of nullity and thus, unenforceability in Mexico.[189] Fortunately, technology transfers were deregulated in the abrogation of the old laws and the creation of the Industrial Property Law, in addition to certain modifications to the copyright laws respecting licensing agreements. Today, the license agreement is basically a private contract like any other contract in Mexico, and its validity and enforceability depends on the compliance of its basic elements. Consequently in this chapter, it is exposed the old regime of technology transfer is described and after that, the current situation of technology transfer is analyzed from a legal perspective.

The old regime and the government intervention

Two bodies of legislation composed the old regime of technology transfer in Mexico. First, the Technology Transfer Law (*Ley de Trasnferencia de Tecnologia*) created a National Registry for the registration of all kind of agreements involving technology

[189] See, Carlos de la Garza Santos, *A New Era: Deregulation of the Transfer of Technology in México*, (Copyright 1993, The US-Mexico Law Journal) at 1. [Hereinafter, *Deregulation of Technology Transfer*]

transfer, such as licensing.[190] Fulfillment of this requirement was essential for the validity of the technology transfer agreement and consequently, its enforceability.[191] Secondly, the previous Industrial Property Law, as mentioned before, did not provide harmonization and adequate protection of IP rights for most of the developed countries, such as Canada and the U.S.

Furthermore, in the registration of a license agreement, the National Registry was authorized to deny registration if one or more of the prohibited clauses listed in articles 15 and 16 of the Technology Transfer Law, were contained in the license.[192] Some of the most important issues on this list were the ones that included: (1) tying clauses, such as obligations to acquire goods and equipment to the licensor; (2) the permission of the transferor (licensor) to intervene in the operation of the transferee (licensee); (3) the assignment of improvements to the transferor; (4) disproportionate royalty payments to the transferor; (5) the establishment of term period of more than ten years; (6) and the limitation of the transferee (licensee) to maintain confidentiality after the termination of the technology transfer agreement.[193]

Obviously, the policy of the Mexican government was to obtain technology from abroad at the least price possible, while in contrast, foreign investors and intellectual property right holders were concerned about exploiting their technology in Mexico. For example,

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[190] See, *Ley General de Transferencia de Tecnología*, published in the official gazette on December 29, 1981. arts. 1-3. [Hereinafter, *Technology Transfer Law*]

[191] For all legal effects, any legal act contrary to the law is null. Consequently, if an essential formality for the validity of a license was the registry, avoiding or not accomplishing that requirement brought about the invalidation of the license. See Civil Code, *supra* note, 13, art. 7.

[192] See *Technology Transfer Law*, *supra* note, 190, art. 15 and 16. Also see, *Deregulation of Technology Transfer*, *supra* note 189, at 1.

[193] See, *Licensing in Mexico*, *supra* note 33, at II.

those companies that only owned intangible assets found it very risky to exploit their technology in Mexico through licensing. It was even worse in the case of companies whose technology was protected under trade secrets, since the technology had no confidentiality protection after ten years. Also, franchise agreements containing information not necessarily technological needed to be registered in order to be valid. Thus, in such cases, companies like Coca Cola Co., that depend on the secrecy of the formula, had to use practical mechanisms, such as keeping the production of the formula within U.S. geographical boundaries, in order to avoid any disclosures within Mexico.

Even technical assistance agreements between related companies needed to be registered in order to be valid, not only for commercial purposes, but for all legal purposes. For example, the standard operations of a foreign company (e.g., manufacturing) conducted through a wholly owned subsidiary required the registration of the technical assistance agreements between both related companies; otherwise, royalty payments were not tax deductible.[194] Such a situation constitutes a strong economic burden to foreign companies wishing to establish operations in Mexico.

The nature of licensing agreements

Currently, with the issuance of the Industrial Property Law of 1991, the Technology Transfers Law and the previous Industrial Property Laws were abrogated. In other

[194] From the general legal perspective, all contracts should meet any requirements of law for its legal validity; otherwise, they would not have any legal consequence. From that perspective, the Income Tax Law in Mexico (*Ley del Impuesto sobre la Renta*) would not consider an expense deductible (in a form of royalties) under an invalid agreement. See, *Ley del Impuesto sobre la Renta*, published in the official gazette on December, 30, of 1980, abrogated on December 30 2001. arts. 22(III) and 24 (I). [Hereinafter *Old Income Tax Law*]

words, licensing agreements are no longer regulated by the federal government and thus, its nature is that of a private contract.[195] According to Mexico's civil legal tradition, a private contract binds parties as long as the requirements of *existence* and *validity* are met.[196] In this sense, the parties may agree to anything except for those circumstances prohibited by the law, and the agreed rights and obligations in the contract will bind the parties.[197] Thus, in a license agreement, the parties are free to agree between each other the terms and conditions of the contract, except for those limitations provided in the Industrial Property Law (in the case of transfers of technology protected by patents and trade secrets), and limitations provided by the copyright law (in the case technology protected by copyright).[198] An example of a limitation may be the definite assignment of moral rights in the case of copyrights.

Commercial Character of the License agreement

In addition, it is important to mention that, according to the current Industrial Property Law and the Copyright Law in respect of economic rights, the licensing agreements are

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[195] S. Szczepanski and D. M. Epstein, *Eckstrom's Licensing in Foreign and Domestic Operations; Licensing Operations in Mexico*, (West Group, 1997-2001) at c. 26.03, p. 2. [hereinafter, *Licensing Operations in Mexico*]

[196] The essential requirements for the existence of a contract are the consent of the parties and a valid object of the contract. For example, the subject of the contract should exist in the nature and should be capable of being commercially exploited by law. The requirements for its validity are presumed to have met the requirements of its existence. Then once the agreement legally exists, it can be legally destroyed if the validity requirements were not achieved, such as the capacity of the representative, formalities by law, and other vitiating factors that may arise. See, E. Gutierrez y Gonzalez, *Derecho de las Obligaciones*, 7th ed. (México, published by Editorial Porrua, 1990) at 135. [Hereinafter, Obligaciones]. Also see, Federal Civil Code, *supra* note 13, art 1792-1795.

[197] In respect of private contracts, the Civil Codes and the Commercial Code applicable to the whole nation states the main rules for its interpretation. First, the parties are bound to the terms and conditions by which they wish to obliged each other. In that sense, the Supreme Law in contracts is whatever the parties agreed. Accordingly, additional formalities to the contracts will only be necessarily when the law states so. Second, if the agreed terms of the contract are clear, they bind the parties. If they are unclear, it is the real intention of the parties that counts. L. Diaz Gonzales, *Manual de Contratos Civiles y Mercantiles*, 1st ed. (México, published by CC Sycco, 2000) at 14-15. [*Contratos Civiles y Mercantiles*]. *Ibid*, Federal Civil Code, 1796.

[198] *Ibid*, 6, 1832-1833.

commercial in nature, because this legislation provides that the Commercial Code is applicable in all respects not regulated directly by these laws. Consequently, in contrast to pure civil contract, commercial contracts have fewer limitations in respect of compensations clauses. However, other civil institutions may also be applicable if, an issue is not regulated within commercial code, such as general consideration of damages and loss of profits.[199]

Under these circumstances, parties are free to agree to whatever they desire in respect of improvements, grant backs, prosecution and maintenance fees. However, in respect to enforcement, there may be some procedural implications, as will be further discussed in the last part of this work.

The registry

Currently, licensing agreements do not require registration as previously, except for enforcement issues with respect to third parties.[200] In other words, if a licensee wants to enforce IP rights against third party infringements, then the license agreement should be registered in order to provide evidence in court of the entitlement required to enforce these IP rights. For that purpose, registration of a license involving patented technologies should be made with the IMPI, while registration of licenses involving copyrights shall be made with the *Registro Nacional de Derechos de Autor* (Copyrights Registry). If the technology transferred requires both kinds of protections (patent and copyrights), the

[199] See, Obligaciones, *supra* note 196 at 670.

[200] In respect patents, the license should be registered to derive legal effects against third parties. See Industrial Property Law, *supra* note 94 art. 63. In respect to Copyrights, see, Copyright Law, *supra* note 135, art. 32, 162.

license shall be registered in both public registries. With regard to trade secrets, obviously, there is no need for registration.

Thus, as a result of registration, the licensee can enforce his rights against third party infringement, even without having exclusive rights for the use of the technologies, since the right of the licensee to follow an action is assumed, unless is prohibited in the license.[201] So, the licensor can be called to court to determine if the enforcement procedure, whether administrative or judicial, may have a contrary effect or adversely affects the right holder.

The grant of rights

Departing from the nature of the licensing agreement for technology transfers, the parties may transfer partially or totally the protected technology, either by patents, trade secrets or copyrights. Also, clauses of exclusivity and non-exclusivity, the scope of the grant whether of use or sale, the field of use and the territory can be negotiated between the parties. Whether, through the analysis of transfer of rights either Industrial Property Laws or the Copyright Laws, one can observes the preference in Mexican policy to protect authors of copyright works over inventors of patented inventions. This arises because the copyright law provides that in all transfers of economic rights, whether the transferee or licensee, there is a right of compensation, even if it was agreed to be a free transfer. On the other hand, in respect of licensing patented inventions, the law is silent, thus there is no obligation to charge a fee.

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[201] In respect of patents, See Industrial Property Law, *supra* note 94, art. 68. In respect Copyrights, see, Copyright Law, *supra* note 135 art. 40.

Similar situations occur concerning the duration of the transfer. With respect to copyrights, the transfer can occur for up to fifteen years. For patents, the transfer could be made for all the time during the duration of patent protection. Thus, less time is accorded to copyrights than patents.[202]

Furthermore, in the licensing of copyrights like those in patents, the licensee has the right to follow an action against third parties infringements, unless the contrary is stipulated in the license agreement.[203]

Regarding the delegation of authorizations on the license agreement, such as the right to grant sub-licenses, Mexican law has developed jurisprudence in similar situations, although not directly related to IP rights, for example, delegation of fiduciary duties. However, the same principles can be applicable to IP rights. The fact is that, if the licensee had express authorization to grant sub-licenses, the law assumes that the licensee can only grant them to a third persons, but without the possibility to authorize the sub-licensee to grant further sublicenses.[204]

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[202] See Copyrights, *supra* note 135 art. 33.
[203] *Supra* note 200.
[204] Ibid, art. 35. Also see related jurisprudence: the Supreme Court confirmed that the grant of exclusive rights, such as the possibility to grant powers of attorney cannot be sub-delegated, unless it had been expressly mentioned by the grantor along with the rights granted. This criteria can be applied analogically. See the jurisprudence; *MANDATO. EL PODER OTORGADO CON FACULTADES PARA SUSTITUIRLO, NO COMPRENDE LA POSIBILIDAD DE QUE, AL EJERCERLO, PUEDA TRANSMITIR TALES FACULTADES SUSTITUTORIAS A UN TERCERO (CODIGO CIVIL PARA EL ESTADO DE SONORA).* Thesis contradiction number 42/98, issued by the Supreme Court, as regard contradictions between the Second and First Collegiate Tribunals of the Fifth Circuit, *Semanario Judicial de la Federacion*, Epoch: 9th Vol. X, November 1999, thesis: P./J.111/99 at p. 31.

With respect to trade secrets, the nature of the transfer is very different from transfers of patented inventions and copyrighted works, because the transfer of technology protected by trade secrets must be made through licenses containing confidentiality clauses, in order to preserve the secrecy of the information (one of the main requirements for the legal protection). This topic was discussed in chapter 3 of this work. However, it is worth emphasizing that the Industrial Property Law does not specify any special requirements for the registration of such transfer, or the duration of the license; it simply allows for the transfer of confidential information through agreements subject to the incorporation of confidentiality clauses.[205]

Tax considerations/ royalties

As mentioned previously, Mexican policy concerning foreign technology transfers has become more liberal, and the first reaction was the abrogation of the old IP laws and the creation of new and harmonized ones. Additionally, within a legal and economic system, some other adjustments must occur in order to accomplish the policy goals. As a result, the Mexican government had signed international treaties with other countries, such as Canada and the U.S., in order to avoid double taxation in cases such where royalty payments are made to residents abroad.[206] Basically, articles 12 of the Mexico-Canada Treaty and Mexico-US Treaty state that the Mexican resident paying royalties to a Canadian or U.S. resident can withhold up to 15% and 10% respectively, for income tax

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[205] See Industrial Property Law, *supra* note 94 art. 84.

[206] See for Canada, *Agreement between the Government of the United States of Mexico and the Government of Canada, to Avoid Double Taxation and to Prevent Tax Evasion in the Field of Income Tax*, published in the official gazette on July 17, 1992 [hereinafter *Mexico-Canada Tax Treaty*]. See for the United States, *Agreement between the Government of the United States of Mexico and the Government of the United States of America, to Avoid Double Taxation and to Prevent Tax Evasion in the Field of Income Tax*, published in the official gazette on January 1, 1994 [hereinafter *Mexico-US Tax Treaty*]

payments to the Mexican government.[207] However, currently, the rate for the withholding tax in Mexico is 10%. Additionally, the Canadian or U.S. resident can deduct the withholding tax paid in Mexico for Canadian or U.S. income tax purposes.[208]

Other issues concerning the licensing of technologies to Mexican residents will be commented on part 3. Specifically, the enforcement of licensing agreements will be discussed. Legal issues relating to licensing agreements, such as compensation clauses, choice of law and jurisdiction will be commented on part 3.

Chapter 5: Competition Laws and licensing

Another issue related to technology transfers in Mexico is the regulation of competition law in respect of monopolies. For licensing operations in Mexico, it is important to consider the Mexican regulation according to the *Ley Federal de Competencia Economica* of 1998[209] (Mexican Competition Law) because, according to article 9 of this law, a license agreement can be considered a business collaboration affecting competition and, thus, may be invalidated.[210] Also, the U.S. antitrust regulations, are particularly important because of their aggressiveness in the field and their extraterritorial

[207] These are the articles regulation the withholding tax about royalty payments from a Mexican resident (generally licensee) to a Canadian or US resident (generally licensor) in both bilateral agreements. *Ibid*, *Mexico-Canada Tax Treaty*, art. 12. Ibid, *Mexico-US Tax Treaty*, art 12.
[208] See for other advantages, The Academy of Tax Studies of Public Accountants, *Tratados para Evitar la Doble Imposicion*, 2nd ed. (Mexico, Instituto Mexicano de Contadores Publicos, A.C., 1994)
[209] See, *Ley Federal de Competencia Economica*, published in the official gazette on December 24 of 1992, as amended in 1998, [hereinafter Mexican Competition Law]
[210] *Ibid*, art 9 last par., 3.

character.[211] Furthermore, scholars have stated that the creation of Mexican competition law has been strongly influenced by the U.S. competition law, despite the fact that the Mexican system is scarce in precedents and jurisprudence related to the matter.[212] For this reasons, it seems more appropriate to begin this chapter with the U.S competition laws, and end with the application of Mexican competition laws in licensing agreements.

Competition laws in the U.S. are regulated by several statues,[213] two of which are *The Sherman Act*,[214] which "declare illegal any business combination that sought to restraint trade and commerce,"[215] and *The Clayton Act*[216] respecting acquisitions of stock and assets affecting competition or creation of monopolies.[217] The authorities who enforce these laws are generally the Antitrust Division of the Department of Justice (DOJ) and the Federal Trade Commission.[218] These laws affect intellectual property and licensing since any kind of business collaboration or combination including licensing, that affects competition may result in the invalidation of the licensing agreement, as well as, other private actions for damages.[219]

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[211] For a summary of the U.S. antitrust laws, See, M. R. Joelson, *An International Antitrust Primer; A Guide to the Operation of United States, European Union and Other Key Competition Laws in the Global Economy*, 2nd ed. (Washington, D.C., Kluwer Law International, 2001) at 11-34, and Appendix III.

[212] "[a]lone among industrial nations, the United States rejected cartels –at least in theory…Americans had been ambivalent toward big business ever since it emerged in the late nineteenth century, respecting its efficiency but fearing its economic and political power…" See W. Wells, *Antitrust and the Formation of the Postwar World,* 1st ed. (NY, Columbia University Press, 2002) at 27.

[213] See Gutterman *supra* note 9 at 40-41.

[214] The *Sherman Act of 1896*.

[215] See, FindLaw for Legal Professionals. < http://prof.ip.findlaw.com/antitrust_1.html >

[216] The *Clayton Act* of 1914 is comprised of §§ 12, 13, 14-19, 20, 21, 22-27 of Title 15.

[217] *Ibid*, Clayton Act of 1914, § 5.18.

[218] See, The Federal Trade Commission Act 1974.

[219] In respect personal actions for damages, see the Clayton Act of 1914, *supra* note 216, §5.

For this reason, the U.S. government issued a set of Antitrust Guidelines (IP Guidelines) for licensing and other business transactions involving intellectual property rights,[220] which include, among other things, issues as comparable treatment of IP rights with other kinds of property rights,[221] the non-presumption on the market power of intellectual property rights[222] and the pro-competitive benefits of licensing as a positive way to facilitate business combinations.[223] Also, the IP guidelines provide a "safety zone" for the parties involved in a transaction, such that it is presumed that the transaction is not, or will not, be challenging antitrust laws.[224] Conversely, the IP guidelines also provide a presumption against the parties involved in a licensing agreement, such as in the case of licensing agreement among competitors, where the transaction involves horizontal competitors, who may possibly create anticompetitive restraints.[225] Therefore, it is advisable that, in any case of technology transfer in the U.S, or out of the U.S. involving a US party,[226] the antitrust laws and guidelines should be verified in order to avoid the invalidation of the license or other negative legal consequences that might arise.[227]

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[220] The Antitrust Guidelines for the Licensing and Acquisition of Intellectual Property of 1995. These guidelines can also be obtained from the Department of Justice web page, < www.usdoj.gov/atr/public/guidelines/ipguide.htm > [hereinafter the IP Guideliness]

[221] *Ibid*, IP Guideliness, § 2.0 (a) and 5.

[222] *Ibid*, § 2.0 (b)

[223] *Ibid*, § 2.0 (c)

[224] *Ibid*, § 4.3

[225] Also other kinds of transactions involving licensing are provided along with examples to illustrate the Department of Justice and the Federal Trade Commission, in respect Exclusive Licensing Arrangements, Resale price Maintenance, Tying arrangements and Cross-licensing and pooling arrangements. See *Ibid*, §§ 5.1 – 5.5.

[226] See the Chapter regarding the New US policy on the extraterritorial Application of Antitrust Law and Foreign Responses. K.M. Meessen, *Extraterritorial Jurisdiction in Theory and Practice*, 1 st ed. (UK, Kluwer Law International Ltd. 1996) at 166-168.

[227] For illustration purposes, it is advisable to read a summary of the Sun Microsystems v. Microsoft Private Antitrust Suit –Fact Sheet case. See online < http://www.sun.com/lawsuit/summary.html >

In Mexico, the creation of the competition law, as it concerns IP, was mainly in response to international pressures for legal harmonization. Because of the recent reorientation of Mexican economic policy as a free market economy, the Mexican government used the competition laws of developed countries, in particular those of the U.S. competition laws, as models on which to base its own laws.[228] Consequently, Mexican competition laws are not highly developed due to the scarcity of precedents and jurisprudence; nevertheless, the laws reflect, most importantly, the influence of the U.S. competition laws. For example, in respect of licensing agreements, article 10 of the Mexican competition law contain issues relating to horizontal restrains, exclusive licensing arrangements and tying arrangements.[229] In such cases, the authority in charge of the enforcement of competition laws, the Federal Competition Commission (*Comision Federal de Competencia*) must verify whether the parties of the licensing agreement have a specified impact on the relevant market. In other words, there can be a presumption of a monopolistic practice, and consequently, the authority may be obliged to verify the impact on the relevant market.[230] Consequently, if after an investigation followed by the Federal Competition

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[228] "[t]he evolution of competition law in Mexico has been and will continue to be different than in the United States. In the United States, the Sherman Act has had long history of developing domestic antitrust law. International regulation has become more important to the American companies but it has played only a minor role in the development of American antitrust law. In Mexico, however, international regulation is playing a far more important role in the development of its competition law. Mexican competition law, still in its infancy, is being developed in an age in which globalization is a watchword and there is substantial pressure for the harmonization of enforcement policies among the different regulatory agencies around the world. In many instances in which a Mexican entity will be acquired as part of a larger transaction, multinational companies may proceed to close deals even though the Mexican piece may not yet be resolved. Mexican competition law necessarily will be affected...transactions occurring outside of Mexico may have much to do with the manner in which competition law develops in Mexico. See, A. Mathewson, *Some Brief Comments About the Pre-Merger Notification Processes in Mexico and the United States*, Presentations at the Ninth Annual Conference of the United States-Mexico Law Institute, Inc.. (United States-Mexico Law journal, Spring 2001) at 3. [Hereinafter, *US-Mexico Competition Laws*]

[229] See Mexican Competition law, *supra* note, 23, art. 10 (I) and (IV)

[230] The authority should consider such acts as monopolistic practices, provided that it verifies whether such practices have direct impact to the relevant market. See, *ibid*, art. 10 first paragraph, 11, 12 and 13.

Commission, an infringement to competition laws is determined, a license agreement can be invalidated.

Independently, the issues of legal harmonization in competition laws related to licensing in Mexico become all the more important when considered that, according to the Mexican legal system, the enforcement of criminal orders of extradition can be executed in Mexico (for example, a petition of U.S. government) if the legal institution is similar to an existent legal provision in Mexico. Then, with the aggressiveness and extraterritoriality of the U.S. competition laws, an international license agreement containing issues such as tying arrangements, the U.S. and Mexican competition laws must be verified.

It is worth mentioning that the Mexican competition law, like the Canadian competition law, do not allow for private actions, as they do in the U.S. system. Therefore, the Federal Competition Commission can only determine damages and lost profits relating to monopolistic practice resulting from a licensing agreement.[231]

In conclusion, despite the fact that the competition laws in Mexico are not highly developed; it contains some of the features of competition laws in developed nations. Consequently, in any licensing agreement that may have an impact in the relevant market, the competition laws should be consulted in order to prevent the invalidation of

[231] The investigation followed by the Federal Commission of Competition is a public action, and on some occasions the petition of a private party can initiate it. However, in such a case, the role of the private party does not constitute a private action. *Ibid*, art 15.

the agreement or other negative legal consequences that may result from such invalidation.

Chapter 6: NAFTA and other International Conventions and Organizations

As mentioned in chapter one, international trade agreements have been the most effective international agreement for IP rights harmonization in the world.[232] Thus, it is not surprising why the TRIPS and NAFTA Agreements have included other international agreements, such as the Berne Convention and the Paris Convention into their structures, as a substantive part of the agreement. For this reason, and, for the purposes of this chapter, the analysis will be limited to NAFTA and, to a certain extent, to TRIPS agreement. While these agreements have also provisions in respect enforcement issues in domestic laws, this topic will be addressed in the following part of this work.

Previous consideration of international treaties in Mexico

First of all, when examining international treaties to which Mexico is a signatory, it should be remembered that its implementation in Mexico is different than in Canada and the United States. In Mexico, an international treaty is self-executable and, technically speaking, there is no need for enactment, as in Canada or the U.S., in order to incorporate the international compromises into the domestic laws. This arises because article 133 of the Mexican Constitution promotes international treaties to that of Mexican legal authority, a situation that has been confirmed by the Supreme Court. Consequently, even

[232] *Supra* note 1.

if the national laws do not contain obligations expressly agreed by the Mexican government in an international treaty, that treaty can be enforced directly.[233]

NAFTA substantive issues

Undoubtedly, NAFTA is the most important international agreement with its larger impact in North America in respect of IP regulation.[234] This arises because of its inclusion of modern mechanisms to harmonize and protect IP rights, by including, for the first time, issues, such as trade secrets and mechanisms for enforcement.[235] It is in Chapter 17 where NAFTA provides IP regulation. Despite the fact that NAFTA is not an international treaty on IP laws *per se*, but mainly an international trade agreement, in Chapter 17, it states that the regulation of IP protection and effective enforcement should be conducted in a manner such that the measures do not themselves become barriers to legitimate trade.[236] Thus, it provides for an adequate protection and enforcement of IP rights; each party shall incorporate into their domestic laws a minimum level of

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[233] "...[t]he case of Mexico is different. The self-executing character of the treaties means that, under article 133 of the Mexican Constitution, they are to be considered as "Law". The Supreme Court has concluded that article 133 adopts the rule that international law as part of the national legal system. Thus for the case of Mexico, it must be held that the expression *laws* includes international agreements..." See J.C. Thomas and S. Lopez Ayllon, *NAFTA Dispute Settlement and Mexico: Interpreting Treaties and Reconciling Common and Civil Law systems in a Free Trade Area*, in *The Canadian Year Book of International Law 1995,* Vol. XXXIII (Vancouver, University of British Columbia Press, 1995) at 105. Also see, Mexican Constitution, *supra* note 23 article 133.

[234] "[N]AFTA contains chapter dedicated to intellectual property that further improves protection in its member countries. This chapter is considered to embody the highest standards of intellectual property protection existing in a multilateral agreement...." See, B. Zagaris and Alvaro Aguilar, *Enforcement of Intellectual Property Protection between Mexico and the United States: a Precursor of Criminal Enforcement for Western Hemispheric Integration*, (Fordham Intellectual Property, Media & Entertainment Law Journal Autum, 1994), at 23. [hereinafter Enforcement of IP in Mexico]

[235] *Ibid*, "...[N]AFTA goes beyond the national treatment usually found in international treaties to ensure that improved intellectual property enforcement does not become a barrier to legitimate trade..."

[236] See NAFTA *supra* note, 1, art. 1701: (1)

protection by giving effect to the substantive provisions of the Berne and Paris Conventions in respect copyrights and patents, respectively.[237]

The National Treatment (NT) principle is also incorporated in order to assure that each party will give the same treatment to nationals of another party as it does to its own nationals.[238]

NAFTA additionally provides substantive provisions respecting IP protection. In particular, for copyright protection, it states that computer programs should be protected as literal works within the meaning of the Berne Convention.[239] It is also other principles commented in Chapter 3 of this work, such as the term of protection, exclusionary rights, economic and moral rights. In this respect, the only amendment that the Mexican government made to its domestic copyright law was the inclusion of computer programs as literal works. In fact, Mexican law may even be considered as over-protectionist, in particular with respect to moral rights, as commented throughout Chapters 3 and 4.

With respect to patents, NAFTA provides the minimum standards for patentability of inventions, including products and processes, with the characteristics of novelty, usefulness and the non-obviousness of the inventions.[240] Also, emphasizes the exclusion of patentability with respect to therapeutic and surgical methods for treatment of humans and animals, the protection of life forms (except microorganisms) and biological

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[237] *Ibid*, art 1701: (2)
[238] *Ibid*, art. 1703. Also see *supra* note 235.
[239] *Ibid*, art. 1705
[240] *Ibid*, art. 1709: (1) (2)

processes for the production of life forms.[241] So, if the current regulation in the Industrial Property Law is considered in respect of patents, it can be concluded that the Mexican government has only met the minimum standards of patent protection, and no more than that.[242] This is logical, because, while Mexico did not develop its own technologies, it is hard to imagine that Mexican policy makers attempt to offer more protection than that required by the minimum standard.

Finally, regarding trade secrets: they are, for the first time, regulated in a international agreement (as described in Chapter 3 of this work), by providing that "each party shall provide the legal means for any person to prevent trade secrets from being disclosed or acquired by, or used by others without the consent of the person lawfully in control of the information in a manner contrary to honest commercial practices, in so far as: (a) the information is secret; (b) the information has actual and potential commercial value because it is secret; and (c) the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret."[243] In this respect, curiously, the Industrial Property Law contains the same elements as trade secret protection. Furthermore, the Mexican Congress made a clear and efficient inclusion of trade secret protection in the law, unifying the secrecy protection and fiduciary duties in all territories, which, perhaps, is a more clear and effective provision than similar those found Canadian and U.S. systems.[244]

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[241] *Ibid*, art. 1709: (3)
[242] For example, al the exemption of patentability of invention found in NAFTA, can be found in Industrial Property Law.
[243] *Ibid*, art 1711 (1) (a)-(c)
[244] As mentioned in chapter II of this work, in Mexico trade secrets are regulated by only one body of legislation with strong consequences in the case of its violation, despite de fact that another civil consequences may arise. On the other hand, in Canada and the U.S., there is no uniform legislation in that

NAFTA enforcement issues

Also, in respect to enforcement mechanisms, NAFTA includes in articles 1714 to 1721, a set of rules for the effective legal enforcement of IP rights, an issue that has distinguished it from other international agreements relating to IP protection. The issue of enforcement is one of the weakest links of international IP protection, and subsequently, NAFTA was designed to achieve and adopt detailed obligations for IP enforcements, as well as, the cooperation between the parties.

Among the procedural issues in NAFTA, issues such as the adoption of fair and effective procedures, a general due process, payment of damages and compensation, either through judicial or administrative procedure and injunctions are included in the agreement to be adopted in the local jurisdictions. Also criminal penalties are contemplated in such cases as piracy, in order to discourage a wide range of infringements.

In general, those kinds of procedural regulation were contained in the Mexican system, even before the implementation of NAFTA. However, Mexico has been criticized for having a weak enforcement system. Some of the problems are structural in nature, and others are technical (for example, the constitutional protection through the *Amparo* procedure). It is on this subject that the following part of this work will concentrate, analyzing the problems of enforcement and possible solutions.

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respect because its regulation is from a corresponding provincial or state level, and thus, it is not as clear and transparent as in Mexico.

TRIPS substantive issues

The TRIPS agreement of the WTO, which resulted from the Uruguay Round, provides the same IP regulations in respect of trade as NAFTA and also obliges its signatory members to provide in their domestic legislation, the minimum standards of IP protection by following the criteria of eligibility for protection contained in the Paris Convention (1967) and Berne Convention (1971).[245] Unlike NAFTA, and in addition to the NT obligation,[246] TRIPS incorporates the Most Favored Nation (MFN)[247] treatment by stating that any advantage, favor, privilege or immunity granted by a Member to the nationals of another member country, shall be accorded immediately and unconditionally to the nationals of all other Members. Nevertheless, in its most important aspects, TRIPS agreement is very similar with NAFTA.[248]

The Mexican IP Laws context

Lastly, from the technical perspective, the NAFTA and TRIPS Agreement came into effect after the Mexican IP laws where adopted and considered by Canada and the U.S. as adequate standards of protection. This is because the issuance of the Mexican Industrial Property Law (which was considered inadequate) completed by 1991, was a precondition for the initial talks with Canada and the U.S. However, despite the criticism concerning the vulnerability of the Mexican legislation due to rapid changes under its traditional presidential system, the commitments made by the Mexican government at the

[245] See TRIPS, *supra* note 8 art 1
[246] *Ibid*, art. 3
[247] *Ibid*, art. 4
[248] *Ibid*, arts 9-14, 27-31.

international level will not be rejected in the near future.[249] The globalization and international trade of goods and services are increasingly carrying technology, and therefore, it is unthinkable that a country may withdraw from its previous arrangements concerning IP minimum standards. Additionally, a recent political development of democratization in Mexico has left the presidential system with less power to amend or withdraw legislation than it had in the past. Consequently, it seems that Mexican policy is tending toward a policy of more protection for technology.

[249] See, Nafta and IP Protection, at. 114.

PART III.- ENFORCEMENT AND REMEDIES OF IP RIGHTS

Under NAFTA, the three North American countries are under an obligation to provide a legal framework on intellectual property laws that allow for an effective protection and provide enforcement mechanisms to prevent and punish infringements of the protected rights.[250] It is generally recognized that an effective protection of IP rights depends in great part on its actual enforcement. While the process of legal harmonization of IP rights is almost complete in the region, the process of uniform and effective enforcement is not since it involves adjustment of the whole legal and judicial system in each country. In particular, on the part of the United States, there was a real concern about effective enforcement of IP rights in Mexico.[251] Some of the concerns were based on Mexico's recent history of inadequate protection and the current inefficiencies of Mexican agencies to enforce and correctly apply the available legal mechanisms.[252]

Other current criticisms of practitioners and authors are more technical in nature. Some of them have a strong basis, such as the non-transparency of the administrative and judicial mechanisms for enforcement. In this respect, the Mexican Congress has just passed legislation in May 2002 in respect of transparency and publication of administrative and

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[250] The article 1714 (1) of NAFTA states: "[e]ach party shall ensure that enforcement procedures, as specified in this article and articles 1715 through 1718, are available under its domestic law so as to permit effective action to be taken against any act of infringement of intellectual property rights covered by this Chapter, including *expeditious remedies to prevent infringements and remedies to deter further infringements*. Such enforcement procedures shall be applied so as to avoid the creation of barriers to legitimate trade and to provide for safeguards against abuse of the procedures." See, NAFTA *supra* note 1 art. 1714 (1).

[251] See special 301 report, *supra* note 183.

[252] "[I]n spite of broad statutory protection for intellectual property in Mexico, enforcement efforts in Mexico are hampered by lack of human and technical resources at agencies responsible for the enforcement of intellectual property protection..." See, *Enforcement of IP rights US-Mexico*, *supra* note 234, at.III (h).

judicial procedures. This topic will be discussed later.[253] However, other criticisms are un-sustained generalizations that do not point out the technical problems. It may be noted that, by comparing the principles agreed by the parties in NAFTA (article 1714) about the defense and enforcement of IP rights, such as the adoption of a general due process to prevent and punish infringements, it may be concluded that, in general, such principles have been included in the Mexican legal system even before the existence of NAFTA.[254] Nevertheless, the fact remains that they are not consistently applied. Consequently, the purposes of this part are: (i) to identify the legal mechanisms of IP enforcement that Mexico should have adopted under NAFTA; (ii) to discuss the technical problems and conflicts arising as a result of the differences between the Mexican legal and the judicial systems, and the Canadian and U.S. systems; (iii) and, in such cases where the Mexican law can or should be corrected for the effective enforcement of IP rights, to present a positive criticism.

Chapter 7: Legal frame work of the enforcement system in Mexico

Prior to the analysis and criticism of the IP enforcement system in Mexico from the NAFTA perspective, it is important to present a summary of the Mexican legal framework to enforce IP laws. There are available three forms of enforcement procedures for IP laws; the administrative, the civil (or commercial) and the criminal.

[253] The procedural laws and the constitution contain the principles described by NAFTA.
[254] For the main principles of the Mexican system under the Constitution regarding a due process, See Sanchez-Bringas, *infra* note, 68, at 648-651, 663-664.

The IMPI is in charge of the administrative procedures in respect, patents, trade secrets, and economic rights of copyrights. Thus, IMPI is the authority to which one would apply for an administrative procedure of declaration, to declare infringements to IP rights, or for anullments or expirations in respect to patents. Additionally IMPI can initiate these procedures *ex officio* or at the request of the right holder. Further more, the IMPI is authorized to issues pre-trial injunctions, injunctions, to follow physical inspections, as well as, to coordinate *avenencia* negotiations (a friendship dispute) and arbitration. By contrast, the *Instituto Nacional de Derechos de Autor* (INDA) is authorized to follow similar procedures as the IMPI, but only in respect to moral rights of copyrights.

Aside from an administrative procedures, a judicial procedure may be brought to claim damages and loss of profits. In the case of copyrights, the basis may be a dispute of ownership. The judicial procedure can be either civil or commercial, and the jurisdiction may be federal or state jurisdiction, depending on the nature of the infringement (e.g., third party or contractual infringement). Additionally, the judges may, in certain circumstances, issue injunctions if certain legal requirements are met.

Finally, infringements may also result in criminal penalties. While this work will present an overview of the criminal enforcement later, it will not be discussed in detail.

Chapter 8: Infringements and remedies (patents, copyrights and trade secrets)

Under article 1714 of NAFTA, the parties should adopt expeditious remedies to prevent current infringements and deter future infringements.[255] As discussed in this chapter, traditionally in Mexico, the administrative remedies are very formalistic, and in some cases, easily invalidated. For example, in the case of an infringement and its corresponding sanction, both should be expressly mentioned in the law in order to be enforced.[256] As a result, practitioners of administrative litigation procedures when litigating an administrative fine or remedy, first check to determine if the fact is expressly classified as an infringement, and second, if there is a sanction in the law expressly related to the infringement. Since, if one element is missing in the law, the law would not be enforceable.[257] By contrast, civil damages and compensation are more limited in Mexico than in Canada and the U.S., and the judicial processes associated with them are definitely not expeditious. However, some of the limitations of the remedies can be mitigated, particularly in respect to contractual relations (eg. licensing agreements).

The IP laws in Mexico provide both general and specific conceptual examples of infringements in respect to patents, copyrights and trade secrets. The legal consequences in the case of infringement may be of different nature: in some cases, the State is the competent authority to impose and collect administrative fines or to prosecute a crime committed; in other cases, the infringements may have civil consequences such as

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[255] See NAFTA *supra* note 1, art. 1714 (1).

[256] In order to be enforceable, the hypothetical fact of infringement and its remedy or sanction should be expressly mentioned in the law. A general statement in the law is deemed to be invalid.

[257] This is because the constitution in article 16 states, that authorities cannot affect individuals, unless they have the legal basis in the strict sense. See I. Burgoa, *infra* note, 80, at 145-146. Also, see the judicial precedent, *MULTAS. DEFINICION DE LA INFRACCION, Amparo directo 111/79*, Circuit Colegiate Tribunals, *Semanario judicial de la federación,* Seveth Epoch: Part 133-138 Sixth Part at p. 228.

damages and loss of profits. On the other hand, the scope of these sanctions and the legal consequences of IP infringements are of extreme importance to really know whether to make an investment in technology, such as for a licensing agreement or any other legal transaction involving the technology business.

Patents infringements

The Mexican Patent Law provides a list of patent infringements.[258] The authority in charge of infringement determination is the IMPI. An infringement, in general, can be any violation to a norm contemplated in the legislation. In respect of patents, in summary, the law expressly provides that it is an infringement the make, sell or offer for sale, or use a patented process or product, without the consent of the patent holder. Furthermore, the there are two other broad infringements provided by the Mexican Law. The first is executing acts contrary to the usages and customs of the industry commerce and services that imply unfair competition, related to Industrial Property (patents in this case).[259] The second is executing acts in the fields of industry and commerce, causing or inducing confusion, fraud or error, making believe or supposing an illegal relation or license with a third party.[260]

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[258] Infringements for making, selling, offering for sale and using a patented invention are considered as infringements in four different paragraphs of the Industrial Property Law, *supra* note 94, art 213, (XI), (XII), (XIII), (XIV).

[259] *Ibid*, art. 213, (I)

[260] Specifically, the law provides that any simulation is an infringement that would make believe the following: (1) the existence of the relation with a third party; (2) that the products are manufactured under specifications, licensees of a third party; (3) that the services are rendered or products sold under authorization, licenses or specifications of a third party and; (4) the subject product comes from a different territory in the case of geographical origin. *Ibid*, art 213 (IX).

Copyrights, infringements

In respect to copyright infringements, the Mexican Copyright law divides the infringements moral rights and the infringements of economic rights as follows:

Infringements to moral rights: Basically the provision refers to any violation to moral rights, such as the right to paternity and integrity.[261] A violation to moral rights would not presume strictly to be a production or reproduction of the work without the consent of the author; certainly the violation may result even if the author of the work authorizes such acts.[262] The authority in charge of the declaration of an infringement and the imposition of sanctions in respect to moral rights is the *Instituto Nacional de Derechos de Autor* (INDA).[263]

Infringements to Economic Rights: This kind of administrative infringement should have two elements: first, a violation to the economic rights (production or reproduction of the work or part of it in any material form) without the consent of the copyright holder, and second, reproduction for lucrative purposes (directly or indirectly).[264] Consequently, the determination of infringement should always consider the reasoning of the authority in respect to the lucrative purpose, otherwise, a federal judge can revoke the infringement determination, as will be discussed later.[265] Also, it is important to mention that this last

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[261] See, the elements of moral rights, *supra* note 138, 139, 140.
[262] For example, the paternity right can be infringed if the performer changes the name of the author, even with the authorization of the author. For the list of the infringements, see, Mexican Copyright Law, *supra* note 135, art. 229 (I), (VI), (VII) (IX) (X) (XIV).
[263] The National commission of minimum salaries is responsible for the determination of the minimum salaries and, therefore, an increment in the minimum will increment the result of the fine payable.
[264] See, Industrial Property Law, *supra* note 94, art. 213.
[265] See *infra* note, 277, about the judicial precedent "*FUNDAMENTACION Y MOTIVACIÓN*".

requirement is, perhaps, unnecessary if we consider the fair dealing list of activities in which a reproduction of the work can be done without the consent of the copyright holder. Therefore, repetition of the law in the chapter of the infringement may cause the burden of proof to shift onto the copyright holder because the defense may argue in its favor (1) fair dealing and (2) no lucrative purposes of the reproduction of the work. In the case of fair dealing, the defense will carry the burden of proof, but, in the second case, the copyright holder will need to prove lucrative purpose, since, even if the defense fails to prove the fair dealing, a sanction would not be imposed.[266]

Trade Secrets infringements

In general, the Industrial Property law provides for contractual and quasi-contractual obligations in respect of the recipient of trade secrets.[267] In respect to non-contractual obligations, the law provides explicit obligations of every person having access to information protected by trade secrets by means of employment, functions, professional or business relations, in which they have been warned to keep the information confidential.[268] Otherwise, the person who delivers the information will be liable for damages.[269]

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[266] The defense is not obliged to prove a negative fact, such as "the non lucrative purposes". Therefore, the plaintiff will have to prove the lucrative purposes of the defendant in using the information. See for the general rules of evidence, J. Becerra-Bautista, *El Proceso Civil en Mexico*, 17th ed. (Mexico, Editorial Porrua, 2000) at 94-95. Also see, *Federal Civil Code*, *supra* note 13, art. 82.

[267] For contractual obligations, see article 83 of Industrial Property Law related to confidentiality agreements. For quasi-contractual situations or fiduciary duties, see article 84. See, Industrial Property Law, *supra* note 94, arts 83-84. See also, *Licensing Operations in Mexico*, *supra* note 195, at. 12-14.

[268] See, *ibid*, Industrial Property Law, art. 85.

[269] *Ibid*, 221 Bis, 226.

The law does not provide a specific list of trade secrets infringements. However, under article 213 (I) of the Industrial Property Law, a trade secret can be infringed if the confidential information is delivered contrary to the uses and customs of the industry, commerce or services that imply unfaithful competition.[270] This concept is broad and may be difficult to apply under administrative authorities, however, civil damages can result independently of the administrative sanction, as will be discussed later on this chapter.

Administrative Remedies

The sanctions provided by the law in cases of infringement may consist in: (i) fines; (ii) temporary closure of the business for up to 90 days; (iii) indefinite closure of the business in the case of recidivism, and (iv) arrest for up to 36 days.[271] In the case of recidivism, sanctions are to be duplicated, providing a sufficient basis to be considered as a criminal offence, as will be discussed later.[272] The sanctions in respect of economic rights in copyright infringements shall also be imposed by the IMPI.[273]

Additionally to administrative sanctions, the Industrial Property Law provides that the damages and losses provoked by a third party shall be regulated by the Civil Code, and

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[270] *Ibid.* See also Industrial Property Law, *supra* note, 94, art. 213, (I)

[271] Indeed, the fines are calculated on the basis of minimum salaries. For example, by the calculation of money, equivalent to 20,000 days of the general minimun salary in Mexico City the law states in respect to patent infringements. In that respect, the *National Comité of Minimun Salaries* publish the salaries payable in each geographic area, and therefore, the fines will suppose to be updated from time to time. *Ibid*, 214 (I-V) and 219.

[272] *Ibid*, 216, 223 (I)

[273] The Copyright Law states: " The Mexican Institute of Industrial Property shall impose the infringements sanctions in respect the economic rights, by following the procedures and formalities provided by Title Six and Seventh of the Industrial Property Law". See, Mexican Copyright Law, *supra* note 135, art. 232 and 234.

expressly provides for a minimum of damages equivalent to 40% of the sale price to the public of the product or service rendered in violation to the law. This topic will be referred to later in this chapter.[274]

For instance, the Industrial Property Law seems to accomplish the objective of the NAFTA article 1714(1). The form through which the law has structured the list of infringements has not been challenged in court or other administrative areas, such as the Tax cases. In respect of the remedies provided, they seem to be sufficient to prevent or deter further infringements to IP laws. However, the problem for effective enforcement results from on the formalities of its application, as is discussed below.

Legality and validity of the administrative resolutions

For the purposes of determination of infringement and imposition of sanctions either in respect to patents, copyrights and trade secrets (if applicable), the authority should follow a strict procedure, after which it should issue a final determination in writing.[275] This final determination should contain the legal basis, reasons and facts for which the infringer was sanctioned, along with the reasoning of the authority explaining the reason that it chose fines and not the temporary closure, vice versa, or both, in the case of patents, or why it considers a reproduction of copyrighted work as an economic

[274] See, Industrial Property Law, *supra* note, arts. 221-221Bis.
[275] *Ibid*, 217. See also for the basic elements of every administrative act the *Ley Federal del Procedimiento Administrativo*, published by President Carlos Salinas de Gortari in the official gazette on August 4, 1994, that came in effect on June 1995, as amended on December 1996 and May 2000, art. 3 and 5. [Hereinafter *Federal Administrative Procedure Code*]

infringement, for example.[276] Furthermore, if the sanction consists in fines, the determination should have legal reasoning in respect of the amount of the fines. In these respects, the courts have stated that administrative authorities should include the legal basis, special circumstances and the reasoning behind it, otherwise, the administrative sanction could be revoked on appeal.[277]

In practice, sometimes authorities find it very difficult to comply strictly with these rules, and, therefore, authorities usually try to impose the least severe sanction in order to avoid the rigorous requirements of legal reasoning, so the sanction will be more difficult to be revoked in other instances.[278]

Consequently, the extreme formalism of the Mexican legal system may pase problems in the enforcement of IP rights, in particular where third party infringements are concerned. For the case of contractual infringements, it may be easier for the authority to impose an administrative sanction because the infringer cannot allege good faith in its defense. Practitioners in fields of administrative law enforcement have abused this extreme formalistic requirement of the law. Thus, this represents a situation that will have to

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[276] For the sanctions determinations, the authority should consider the intentions of the infringer, the level elements of the infringements and the entire legal basis, along with the circumstances of the specific case, in order to not deprive the rights of the defense. See for an analogical interpretation, *MARCAS. DEBIDA FUNDAMENTACION Y MOTIVACION DE LA DECLARACION DE INFRACCION ADMINISTRATIVA PREVISTA EN EL ARTICULO 210, INCISO B), FRACCION II, DE LA LEY DE INVENCIONES Y MARCAS. Amparo en revisión 284/95*, Circuite Colegiate Tribunals, *Semanario judicial de la federación,* Nine Epoch: Part III, April 1996, Thesis I.4°.A91 A. at p. 417.

[277] See for illustration, the judicial precedent, *FUNDAMENTACION Y MOTIVACIÓN, Amparo directo 194/88*, Circuit Colegiate Tribunals, *Semanario judicial de la federación,* Nine Epoch: Part III, March 1996, Thesis VI.2°. J/43 at p. 769.

[278] See in respect formalities of minimums or maximums of fines impositions, the judicial precedent, *MULTAS, MOTIVACION FALTANTE DE LAS. NO IMPORTA VIOLACION DE GARANTIAS CUANDO SE IMPONEN LAS MINIMAS, Amparo directo 336/87*, Circuit Colegiate Tribunals, *Semanario judicial de la federación,* Seventh Epoch: Part 217-228 Sixth Part at p. 397.

change in the near future. By contrast, the administrative law was structured in such a way, as a result of previous authority abuses. Nevertheless, it is time to improve the law in a manner in which it can be applied efficiently and expeditiously.

Civil damages, loss of profits and compensation

As mentioned previously in respect of administrative infringements to patents, copyright (in particular economic rights)[279] or trade secrets, the infringer will be liable for payment of damages to the IP right holder.[280] Civil liability, is regulated according to the Federal Civil Code or by the Civil Code of the State in which the infringement has been committed,[281] and in general, all civil codes in Mexico provide that any person who causes damages to another by doing an illegal act[282] shall by liable for the repair of such damage.[283] Additionally, the Industrial Property Law provides minimum levels of compensation in the amount of the damages caused to the IP right holder.[284]

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[279] The violation of moral rights of copyrights do not have explicit consequence in the Copyright Law in respect to the remission to the Industrial Property Law which expressly states the consequence of damages. However, damages and loss of profits and moral damages may be actioned, applying directly the Federal Civil Code. See Copyright Law, *supra* note, 135, art. 10, 200, 213, 230 and 231

[280] In the case of infringements to patents and trade secrets, the Industrial Property Law directly addresses the damages. In respect of copyrights, the Industrial Property Law is also applicable even though Copyright belong to a different body of legislation (since the Mexican Copyright Law orders in respect to violation to economic rights, the application, consequences and procedures provided in the Industrial Property Law). See Industrial Property Law *supra* note 94, 221, 226. *Ibid.*

[281] Only in respect to the moral right of Copyrights, is only the Federal Civil Code the civil code applicable. See *ibid.*

[282] Notice that under the Mexican system any act that is contrary to good customs is illicit. See Federal Civil Code *supra* note 13, art. 1830.

[283] *Ibid*, art. 1910.

[284] The Industrial Property Law state the following: "[t]he repair of the damage or the indemnification of the damages and loss of profits derived by an infringement to the rights conferred by this law, shall never been less than 40% of the price of each product or services rendered in violation in total or part of the rights conferred by this law." See Industrial Property Law, *supra* note, 94, art. 221 Bis.

The regulation of civil damages in Mexico is much more limited than it is in Canada and the U.S. One cause may be that in Mexico the law does not allow for punitive damages.[285] Additionally, U.S. practitioners have criticized civil liability regulation in Mexico stating that Mexican law is simple, archaic and uninteresting for legal practitioners.[286] In some ways this statement is true, because of the unfamiliarity of the vast legal sources and principles in every civil tradition that are applicable in the area of damages and other private law institutions.[287]

Nevertheless, according to the Civil Code, the offended party can decide how to be compensated for the damage, either by the repair of the damage caused (which would not always be applicable in the case of IP violations) or by the payment in liquid money for the damages (*daños*) and the loss of profits (*perjuicios*) caused.[288] Accordingly, pursuant to the Civil Code of Mexico, damages is defined as "the loss or deterioration suffered by property through failure to fulfill an obligation",[289] and loss of profits, as "the deprivation of any lawful gain which should have been obtained from the fulfillment of the obligation"[290] which, in the case of IP law, would be to not use a patented invention or to

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[285] In Mexico the law does not provide with punitive damages. Also "...[m]exicos legal system is not conceptually equipped with the legal principles or doctrines, nor with the technical standards and varied legal scope, found in the tort law practiced in common law countries, particularly in the United States..." See Jorge Vargas, *Tort Law in Mexico*, 1st ed. (Obtained from West Group, Mexican Law, 1998) at 209. [hereinafter *Tort Law in Mexico*]

[286] Industrial property law, *supra* note 94, art. 210.

[287] In the Mexican civil law system, in addition to legislation and jurisprudence, thesis precedents of the federal tribunals constitute a source of law in broad sense. Also, the legal principles and doctrine constitutes a source of law and can be obtained from the doctrine of Mexican authors or from doctrine of Italian, German, French or other civil law traditions, if the regulation of the specific legal institution is identical or similar to that in Mexico. This legal principles and doctrine have been accumulating from many centuries ago. For more information about the sources of law, see Ignacio Galindo Garfias, Derecho Civil, 14th ed. (Mexico, Porrúa editorial, 2000) at 54-64.

[288] See Federal Civil Code, *supra* note, 13, art. 1915.

[289] *Ibid*, art. 2108.

[290] *Ibid*, art. 2109

not reproduce a copyrighted work or to not deliver secret information in the case of trade secrets.

Furthermore, the Industrial Property Law provides, with the additional concept of civil damages related to patents, copyright (just economic rights) and trade secrets, that the quantification of the damages shall never be less than the forty percent of the sale price of each product or service rendered in violation to industrial property or copyright.[291] This situation represents a relief to the offended party in the sense that if he chooses the minimum level of damages, he will not have to prove all the elements involved in the amount of damages incurred, but only a few of them.[292]

In regular civil procedure under a civil judge, the offended party will need to prove its status as an IP right holder, the infringement of IP rights, and its relation to the damage and loss of profits caused.[293] Concepts such as negligence need not be proved. Also, in cases such as patent infringements, the damages will depend on the administrative declaration of infringement; otherwise a civil judge will have no basis to establish the illicit act, and thus the damages incurred.[294] On the other hand, in the case of trade secrets, certain violations of secrecy do not constitute an administrative infringement, but

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[291] See Industrial Property Law, *supra* note, 94, art. 221 Bis.

[292] Accounting documents and Tax information of the other party may be a good source and from the procedural perspective the defense should provide that documentation.

[293] For civil purposes is eliminated the element of good or bad faith and will subsist the cause effect of the illicit act and the damages. See the Thesis, *RESPONSABILDAD CIVIL OBJETIVA, Amparo civil directo 4681/51*. Third Chamber, *Semanario Judicial de la Federación*, Epoch: 5th, Part CXI, at p. 217.

[294] The standard of review and the elements to prove illicit acts, are not necessarily the same on criminal and civil procedures. See the Thesis, *CIVIL RESPONSIBILITY DERIVED FROM ILLICIT ACTS. (CRIMINAL CHARGES), Amparo directo 1742/42, Sec 2.* Third Chamber. *Semanario Judicial de la Federación*, Epoch: 5th, Part LXXXIX, at p.2459. See also Thesis, RESPONSABILITY FROM ILLICIT ACTS (LEGISLATION OF GUERRO STATE), amparo directo 6883/60. Third Chamber. *Semanario Judicial de la Federación*, Epoch: 6th, Part LXII, Fourth Part, at p. 143.

a criminal offense: in such cases, the civil judgment will not depend on an administrative declaration of infringement. In contrast, the determination in the criminal procedure will not necessarily affect the decision rendered by the civil judge since the two standards of review differ greatly.[295]

However, in the case of a patent infringement, it would be necessary to obtain an administrative declaration of patent infringement, in order to prove the damage in the civil court, due to the fact that the IMPI is the only authority competent to declare a patent infringement,[296] and, in such cases, the civil procedure of damages would be dependent on administrative declaration.[297] However, provisional declarations may be useful to fulfill the requirements for the civil procedure.

Concerning the quantification of the damage and the loss of profits, the basis of the quantification should be provided since the initial complaint in the civil procedure,[298] and, in that case, the civil judge may issue a final resolution leaving the specific liquidation of the damages and loss of profits for an incidental procedure (a mini-trial) in

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[295] See Mexican Constitution, *supra* note, 23, art 16.

[296] According to article 14 of the Mexican Constitution, an authority should have jurisdiction over the act in question (in this case patents) otherwise the act is illegal. Therefore, in respect of patent infringements, only the *Instituto Mexicano de la Propiedad Industrial* (IMIP) can declare it and, consequently, the civil procedure for damages may depend on this. See Mexican Constitution, *supra* note, 23, art. 14.

[297] *Ibid.*

[298] The basis of the estimation of the damages that resulted and would result, along with the special circumstances. See the Thesis, *DAÑOS Y PERJUICIOS, CONDENACION GENERICA DE LOS, Amparo Directo 243/89,* Tribunales Colegiados de Circuito, *Semanario Judicial de la Federación*, Eight Epoch: Part III Second part-1 at p. 244. Also *DAÑOS Y PERJUICIOS, FALTA DE CUANTIFICACION DE LOS, Amparo directo 4342/56*, Third Chamber, *Semanario judicial de la federación*, Fifth Epoch: CXXXI, at p. 569. But see contrary, *DAÑOS Y PERJUICIOS QUE CONSTITUYEN EL OBJETO PRINCIPAL DEL JUICIO. OPORTUNIDAD PARA PROBARLOS.* Amparo directo 378/93, Tribunales Colegiados de Circuito, Semanario judicial de la Federación, Eight Epoch: XIII-June at p. 549.

the stage of enforcement of the final resolution.[299] In that case, the amount of damages in the final resolution under the civil procedure will depend on the nature of the damages and the creativity and ability of the offended (his or her lawyer) in the making of an accurate and sustained accountability of the damages.

Compensation on breach of contract

The compensation for breach of contract differs. Considering that a license is legally a commercial relationship in nature (as opposed to civil), the parties may agree in advance to the compensation arising from the breach of contract, technically named *Clausula penal* or compensation clause. The commercial code sets out two limitations: first, that the amount of the compensation clause should not be higher than the value of the principal obligation of the contract; and second, that the offended party in the case of breach of contract may not be able to claim for additional damages because the compensation clause legally substitutes such damages and loss of profits.[300]

Crimes and penalties

Finally, perhaps the most drastic remedy of every legal system is the criminal enforcement. Basically, the Mexican system provides that recidivism is a criminal offence if the first infringement constitutes a final determination without any pending judicial review.[301] In this respect, the Industrial Property Law states that patented inventions should mention, in a visible form, that they are patented (either with the

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[300] See, J. Pina Vara, *Derecho Mercantil Mexicano*, 21st ed. (México, Editorial Porrua, 1991) at 183-187.
[301] See Industrial Property Law, *supra* note 94, art. 223 (I), 224.

registration number of Patents on products, or in any other public form in the case of services).[302] While this requirement may have some difficulties in application in case of a patented process, reasonable measures should be taken.

In respect of copyrights, most of the infringements of moral rights are not considered crimes, except for infringement of the paternity right, where the penalty consists of 6 months to 6 years of imprisonment. For economic rights infringement, penalties consist in imprisonment for 3 to 10 years.

In particular, the violation of trade secrets is a criminal offence if two elements are met: first, if the information is delivered, obtained or used without authorization of the controller of the information; secondly, if the purpose is to obtain economic benefits or to cause damage to the controller of the secret. The last element can be difficult to prove (as in the case of administrative infringements). Additionally, this crime is penalized with imprisonment for two to six years plus fines.[303]

Multiplicity of sanctions

Finally, the imposition of administrative fines and sanctions, damages and compensations, and criminal charges do not exclude one another and, consequently, a certain infringement may result in several actions: administrative, civil and criminal.[304]

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[302] The same principle applies in the civil procedure in respect to damages. *Ibid*, 229.
[303] *Ibid*, 223, (IV), (V), (VI), 224.
[304] *Ibid*, arts, 221, 226.

Patent Annulment and expiration/ Licensing

The issue of patent annulment can also be an issue in respect of enforcement of licenses. This is because, in a breach of contract, the licensee may argue in its defense that the patent is invalid, thus opening door to an administrative declaration of annulment, which is necessary for the enforcement of the license.[305] Consequently, considering all the formalities that the authorities must meet, the license may be unenforceable.

On the other hand, the consequences of annulment may have indirect effects on the sanctions and penalties related to patent infringement. In principle, a patent should be granted to inventions under the basis prescribed in chapter 3 of this work. However, the patent might be declared null (equivalent to invalidation) by the IMIP if these legal requirements are not meet.[306]

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[305] Under a civil procedure, the defendant has the right to argue in its defense the defectiveness of the technologies granted and, of course, the invalidation of its legal protection. Simultaneously, the defendant can be the plaintiff under an administrative procedure of annulment declaration, and thus, the judicial procedure in respect the breach of contract (e.g. because of patent infringement in the field of use) will depend on the resolution of the administrative authority. See J. Becerra-Bautista, *supra* note 266, at 56. Also, internationally, this practice had been used in other jurisdictions. Fawcett and Torremans state: "...[I]NFRINGEMENT LINKED LITIGATION...[t]he alleged infringer of an intellectual property right may try to escape by challenging the validity of the intellectual property right by way of defense." See, Fawcett and Torremans, *Intellectual Property in Private International Law*, 1ST ed. (NY, Oxford University press, 1998) at 9.

57 Only in special cases the annulment can be declared by a Federal District Attorney (*Agente del Ministerio Publico Federal*) if the Federal Government have legal basis to do so, such as in cases as criminal procedures. See Industrial Property Law, *supra* note, 94, art. 79. Furthermore, the annulment can be declared on the following cases: (i) if a patent was granted in contravention to the requirements and conditions for the granting of patents. That is, if the patented invention was granted without the requirements of novelty, useful and unobvious, or if the invention is contained in one of the restrictions or conditions for obtaining a patent such as life forms or computer programs; (ii) if a patent was granted in contravention to legal provisions, which were in force at the time the patent was granted; (iii) if during the process of patent application for obtaining a patent, the procedure is abandoned; (iv) if the granting is made by mistake, error or in another vitiating form, or if the patent is granted to the wrong person. Obviously, this cause of annulment can be invoked even under the ground of the basic legal principles of every civil system.

The actions of annulment mentioned in subparagraphs (i) and (ii), can be exercised at any time, while the mentioned in subparagraphs (iii) and (iv) can be exercised within five years from the date the patent is published in the official gazette. See *ibid*, arts. 16, 19, 78- (I)-(IV), 79

The procedure for an annulment declaration can be initiated by the IMPI or by the request of an interested party, as discussed in the following chapter.[307] In every case if a patent is declared null, the legal effect consists in the retroactive destruction of the filing date, the scope of coverage and all other effects that the patent would have.[308] Consequently, the declaration of annulment causes the invalidity of other contractual arrangements, such licenses or transfers of rights in respect of the patent in question.

On the other hand, a patent can expire and, consequently, can lose its effects once the time period expires.[309] In Mexico, the literal concept of expiration is *Caducidad*, which is usually referred to as the loss of a right resulting from non-use.

One of the most important differences between annulment and expiration is that, in the case of annulment, the effects of invalidation are retroactive in time, while, in the case of expiration, the effects of invalidation begin from the time the expiration is declared. This huge difference has a strong impact on the consequences of damages, compensation and other offences that the patent holder may incur in the case of a patent annulment.

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[307] See chapter two for the procedures and mechanisms available in the case an interesting party may want the declaration of annulment of a patent.

[308] *Ibid*, art. 79.

[309] The expiration may occur on the following basis: (i) because of the expiration of the validity duration of the patent; (ii) because the lack of fee payment for the maintenance of the patent in the IMIP; or (iii) if after two years in the case of compulsory licensees, when it is not used by the licensee. *Ibid*, art 80 (I)-(II)

Chapter 9: Specific conflicts on administrative and judicial procedures

Article 1715 of NAFTA provides a set of specific obligations that parties should adopt in their local procedural laws: clear and unnecessarily complex administrative and judicial procedures to comply with the obligation of effective enforcement of IP rights. These obligations include: legal representation, due process, injunctions, preliminary declarations, inspections, and the right to judicial review. All these mechanisms are also included in Mexican law. However, the problem is that their effective implementation may be difficult because the Mexican legal system is rigid and, in some cases, unclear and complicated. Undoubtedly, this affects the enforcement of the IP legal system.

With respect to the transparency of the Mexican judicial system, which is outside of the scope of NAFTA, the criticism that the system is not transparent has been addressed by the Mexican Congress which recently passed new legislation addressing this problem. This topic will be as discussed at the end of this chapter.[310]

Administrative procedures

Under the Industrial Property Law, the IMPI has the authority to declare through the procedure of administrative declaration (*Procedimiento de Declaración Administrativa*) either the annulment and expiration of a patent, or the administrative infringements on

[310] See *infra* note 325.

patents, economic rights of copyright, or trade secrets in certain circumstances.[311] This procedure can be initiated by the IMPI or by an interested person.[312] Additionally, the IMPI, under special circumstances, can issue pre-trial or interim-injunctions in order to retire from circulation and commercialization the products and services protected by some form of IP rights (including patents, trade secrets and copyrights).[313] Also, the IMPI has the authority to make investigations and inspections to verify the compliance of IP rights, either by a written request of information and data or by physical visits for inspection.[314]

On the other hand, the Copyright Law provides several administrative procedures and a combination of mechanisms for controversies related to copyrights, either in relation to

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[311] See Industrial Property Law, *supra* note, 94, arts. 79, 179, 187, 214. In respect of infringements of economic rights of copyrights, it is the same procedure under the IMPI because the Copyright Law provides it. See Copyright Law, *supra* note 135, art 234. See also J. Amigo Castañeda, *El IMPI y la protección de los Derechos de Autor*, at 3. 1998. Article obtained from *Las Nuevas Tecnologías y la Protección del Derecho de Autor*, 1st ed. (México; Colección Foro de la Barra Mexicana, Themis Publications, 1998) [hereinafter *Nuevas Tecnologías y Derechos de Autor*].

[312] *Ibid*, Industrial Property Law, art 188.

[313] For such purposes, the interesting party should provide the IMPI with: (1) proof of infringement, (2) imminent consequences, such as damages (3) the basis of imminent destruction or hide of the evidence, and (4) a bond. See, *Industrial Property Law*, *supra* note 94, art. 199 Bis. Also see *ibid*, J. Amigo Castañeda at p. 6-9.

[314] In the case of physical visits for inspection, the visit shall be conducted in a very formal way (identification of the visitors in working days and hours and formal minutes must be in writing for each inspection in the presence of witnesses), and the inspected party (either the owner of the inspected address or the person in charge) should provide the authority with access to all products and services information and related documents with the activity in the field. Secure of materials and Final Determination. If, during the inspection, the inspectors find *unequivocal* facts that constitute an administrative infringement or a crime associated with IP rights, the inspectors shall secure the equipment, products or documentation associated with the violation and name a depositary of the secure materials. If the final determination in respect of the substance of the inspection considers that an infringement and/or crime was committed, the IMPI should decide the final destination of the secured materials with the hearing of the parties involved subject to the specific procedure derived from the inspection either a civil court, arbitration or else. *Ibid*, *Industrial Property Law*, art 203, 205, 207-212. Also Copyright Law *supra* note 135, art 234. Ibid, Jorge Amigo Castañeda, at 6.

moral rights or economic rights.[315] These procedures are conducted by the *Instituto Nacional de Derechos de Autor* (INDA),[316] and include dispute settlement mechanisms (*Avenencia* and *Arbitration*), as well as, inspections visits and injunctions.[317]

The problem with all these procedures is that they are extremely formalistic and rigid, and, if the authority in issuing an injunction or during an inspection visit misses a single detail, the process can be invalidated in the second instance. Thus, the authority must always have to comply with the rigorous legal forms, as described in the last chapter. Furthermore, because of the recent implementation of this law, in some occasions, the law itself can be unclear in its implementation. For example, the separation of the procedures in respect of economic rights or moral rights of copyrights may bring complications, such as contrary resolutions by the IMPI and the INDA.

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[315] See Copyright Law, art. 210, 213, 217, 219. Also see the *Reglamento de la Ley Federal de Derechos de Autor,* published in the official gazette on May, 22, 1998, art 139, 143, 161-165 [hereinafter Rules of Copyright Law].

[316] See Copyright Law *supra* note 135, art 208-210, 218, 219.

[317] a) Inspections on copyrights (moral rights). The formalities in essence, are similar to the inspection followed by the IMPI described that produce injunctions, the securing of material related to an infringement and the declaration of administrative infringement respecting to moral rights.
b) Administrative procedure of infringement (moral rights). Is conducted by the INDA with similar characteristics to the procedure of administrative declaration conduct by the IMPI.
c) Procedure of *Avenencia.* In any controversy related to copyrights (except for declaration of infringements to economic rights), the alleged affected parties may initiate a procedure of *Avenencia* under the auspicious of the INDA. This procedure should be conducted in a friendly manner (similar to a mediation) in order to solve any issue related to the Mexican Copyright Law. The role of the INDA will be just to find conciliation between the parties and it has no authority to make determinations. If an agreement is achieved, this will constitute a final determination (*cosa juzgada*) and will be enforceable. If an agreement is not possible, the INDA will exhort the parties to enter into an arbitration procedure. In any case, the procedure of *Avenencia* will be private and the resulting files are confidential unless another authority requests them.
d). The arbitration procedure will be conducted according with the rules established in the Mexican Copyright Law and its rulings (*Reglamento de la Ley Federal de Derechos de Autor*) and if necessary by accessory or supplemental application of the Commercial Code, only on its arbitration chapter. It is important to mention that, the arbitration chapter of the Commercial Code since 1993 adopted the Arbitration Model rules of the United Nations Commission of International Trade Law (UNCITRAL) in respect International Commercial Arbitration. This model was adopted not just for international commercial arbitration but also for domestic arbitration. *Ibid*, 217-218; 219-228. Also see Rules Copyright Law, 142, 156-160, 164-165.

Another situation that was unclear until recently, was concerning the judicial review that Mexico was required to implement a few years ago according to NAFTA article 1714(4). Since May 2000, the affected party in a final determination issued in the administrative procedures (either under the IMPI or the INDA) has the right to file against it a *Recurso de Revision* (a review recourse) contained in another body of legislation, the *Ley Federal del Procedimiento Administrativo.*[318] This was done through an amendment to article 83 of this law, which now expressly includes the possibility of the *Review Recourse* against the resolution issued by the IMPI. However, there was confusion and procedural risks, since, in respect to resolutions issued by the IMPI (on patents, trade secrets and economic rights from copyrights), the Industrial Property Law does not provide an explicit recourse (except for the reconsideration recourse which is only for patent applications).[319] Therefore, it was not clear what legal recourses or instances are available in the law.[320]

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[318] See *Federal Administrative Procedure Code*, *supra* note, 275, art. 83. Also the Supreme Court confirmed the applicability of the new legal recourse since 2000, see the Jurisprudence, *RECURSO DE REVISION PREVISTO EN LA LEY FEDERAL DE PROCEDIMIENTO ADMINISTRATIVO. DEBE AGOTARSE ANTES DE ACUDIR AL JUICIO DE GARANTIAS CUANDO SE IMPUGNE UNA RESOLUCION DEL INSTITUTO MEXICANO DE LA PROPIEDAD INDUSTRIAL (DECRETOS DE REFORMAS DEL 19 DE ABRIL Y 30 DE MAYO DE DOSMIL). Amparo en Revisión (Improcedencia) 86/2001*, Circuit Tribunal Courts, *Semanario Judicial de la Federación*, Epoch: 9th Volume XV, tesis I.10°.A J/3 at p. 1155.

[319] In the case of procedures followed by the *Instituto Nacional de Derechos de Autor* (INDA) the Copyright Law expressly provide the inclusion of the procedure under the Federal Administrative Procedure Code, and, consequently, the applicability of the *Recurso de Revision*. See, Copyright aw, *supra* note 135, art. 230.

[320] It was an extreme controversy in respect of resolutions issued by the IMPI because the Industrial Property Law does not provide an explicit recourse for administrative procedures. Therefore, there was a risk in deciding other procedural options applicable either the *Juicio de Amparo Indirecto* in a Federal Judge, or the *Demanda de Nulidad* under the *Tribunal Federal De Justicia Fiscal y Administrativa (TFF)*. The problem was that both procedural options exclude one another, so there was a risk of losing because of an unclear situation in the law. Consequently, the *Supreme Court* decided in 1999 that if the resolution issued by the IMPI was simply the imposition of fines, then the case should be solved through a *Demanda de Nulidad* under the TFF, but if not simply contain fines but other determinations, the case should be solved through *Juicio de Amparo Indirecto* under a Federal Judge. However, this solution was not clear and transparent and there was still room for procedural error. See in respect to fines the *Jurisprudence* titled, *PROPIEDAD INDUSTRIAL. EL JUICIO DE NULIDAD ANTE EL TRIBUNAL FISCAL DE LA*

Situations like this still exist, so the Mexican government should develop more uniform procedural laws to avoid complications in the enforcement of intellectual property laws.

Civil proceedings

With regard to civil or commercial procedures, there is a similar problem related to the ambiguity of the applicable law, in respect of the substantive law and procedural law. Generally, IP right holders can exercise civil actions for infringements of patents, trade secrets and copyrights.[321] Among the main causes of action are damages, lost of profits and compensation and, in some cases, ownership of the intellectual property in respect to copyrights or trade secrets. This civil action does not exclude the possibility of following administrative or criminal actions, but the final resolution may have different implications from one to another. This may have, in certain circumstances such as technologies protected by more than one IP rights, complications for deciding the strategy to enforce IP rights and accessories.

FEDERACION DEBE AGOTARSE PREVIAMENTE AL AMPARO, CUANDO SE IMPUGNEN RESOLUCIONES QUE UNICAMENTE IMPONGAN MULTAS POR INFRACCIONES A DISPOSICIONES DE ESA MATERIA, Contradicción de Tesis 12/99 between First and Second Administative Tribunals, Second Chamber of the Supreme Court, *Semanario Judicial de la Federación*, Epoch 9 Vol. X, thesis 2ª/J. 117/99 at p. 385. See also in respect other determinations, *PROPIEDAD INDUSTRIAL. EL JUICIO DE NULIDAD ANTE EL TRIBUNAL FISCAL DE LA FEDERACION ES IMPROCEDENTE CONTRA RESOLUCIONES QUE, ADEMÁS DE IMPONER MULTAS POR INFRACCIONES A ESA MATERIA, DETERMINEN LA CLAUSURA DEL ESTABLECIMIENTO Y LA PUBLICACIONEN DE LA RESOLUCIÓN EN LA GACETA DE LA PROPIEDAD INDUSTRIAL,* Contradicción de Tesis 12/99 between First and Second Administative Tribunals, Second Chamber of the Supreme Court, *Semanario Judicial de la Federación*, Epoch 9 Vol. X, thesis 2ª/J. 118/99 at p. 415.

[321] See Carlos Loperena, *Solución de Controversias en Materia de Derechos de Autor: Jurisdicción Ordinaria*, at 1. Article obtained from, *Nuevas Tecnologías y Derechos de Autor*, *supra* note 311.

On the other hand, jurisdiction is an issue that depend on the specific IP right; the civil code (for damages and lost profits) applicable may be either state or federal jurisdiction, and the procedure may be also state or federal procedure. The problem with the application of the civil law in claiming damage is that the application of different civil codes is not in harmony with IP laws, so a uniform application must be developed within the law.[322]

In respect of procedural issues, similar problems arise, such as in the case of the substantive civil code, because the procedures to be followed are not in harmony and unclear.[323] In some cases, the procedure can be within federal jurisdiction or state jurisdiction or even a hybrid.[324] However, in respect of procedural issues, the

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[322] In Mexico, the principle of territoriality is one of applicable rule, and accordingly, the civil code of the state in which the infringement was made will be the applicable one. If committed in Mexico City (the Federal District) the Federal Civil Code will be applicable. Additionally, in some cases, the field of law or the law itself will be the determinant of the applicable civil code, either for federal jurisdiction or state jurisdiction. In the case of patents and trade secrets, the applicable civil code results from a combination of criteria, because the Industrial Property Law expressly provides that, for damages and loss of profits, the right holder has the option to apply the corresponding State Civil Code or the Federal Civil Code. This option applies as long as public or government interest are not involved, otherwise the Federal Civil Code will be applicable.
In respect of copyrights, damages, loss of profits and compensation, should be determined by applying the Commercial Code and the Federal Civil Code in all aspects not regulated by the copyright law. Therefore, it is clear that, for issues of ownership, cancellation of illicit registrations and moral infringements, the Federal Civil Code will be applicable. Additionally, in respect of economic rights, it is clear that according to the Industrial Property Law (which is applicable to enforce economic rights), the right holder can claim for damages loss of profits and compensation with a minimum equivalent to 40% of the sale price, but, in respect infringement of moral rights it is not clear whether there is a basis for that because the Copyright Law only mentions the concept of fair compensation without expressing minimum levels. See Jorge Vargas, *supra* note 285, at 218. Federal Civil Code, *supra* note 13 art 1. Industrial Property Law, *supra* note 94, art. 221 and 227 second paragraph. Copyright Law, *supra* note, 135, art. 10, 40. See specially, Roberto Rendon Graniell, *Notas para una Platica sobre los Aspectos Civiles de Derechos de Autor; Aspectos Sustantivos, Nuevas Tecnologias y Derechos de Autor*, *supra* note 311. But see Carlos Loperena, *supra* note 321. He argues that, even in copyrights, the right holder has options to apply the state civil code.
[323] However, the general rule is that the judicial procedure to enforce IP rights is an ordinary procedure (as opposed to summary or fast track procedure), either in commercial or civil judicial procedure. See Carlos Loperena, *supra* note 321.
[324] For example, if the infringement is in respect patents and trade secrets, the procedure is federal under a Federal judge, and if only private parties are involved, the right holder can choose a state civil procedure under state judge. In the case of moral rights derived from copyrights, the procedure shall always be civil

consequences are more dramatic. This is because of the fact that failure to initiate the correct procedure can bring the problem of losing the case.

New Law of Transparency and publication

One of the strongest criticisms about the judicial system was the lack of transparency. Traditionally, the administrative and judicial procedures were restricted to the public, and only the parties were able to formally know the content of the administrative and judicial resolutions. As a result, authorities and judges were not under the pressure to issue fair and just final resolutions, not to mention the corruption implications that could also arise. However, on April 30th, 2002, the Congress passed a new legislation named Federal Law of Transparency and Access to Public Governmental Information (*Ley Federal de Transparencia y Acceso a la Informacion Publica Gubernamental*).[325] This law includes all administrative final resolutions and judicial resolutions at the federal level. Consequently, any person from the general public has access to this information, and thus, the development of law enforcement should have positive effects.

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procedure under a Federal judge. However, if there is infringement to economic rights derived from copyrights, the procedure shall be commercial (according to the Commercial Code) under a federal judge, or, if it involves only private parties, the actor can elect for a commercial procedure under a State judge. Furthermore, if the infringement involves technologies protected with more than one type of IP rights, including Economic Copyrights, the actor can initiate a commercial procedure due to the preference by law of the commercial procedures over civil procedures. See Industrial Property Law, *supra* note, 94, art 227. See Roberto Rendón Graniell, *supra* note 322. Also see Copyright Law, *supra* note, 135, art. 10 and 213. See contrary, Carlos Loperena *supra* note, 321, at 1-2. Additionally, it is important to mention that, under commercial code, the federal civil code is also applicable in the case of damages and loss of profits. See *Codigo de Comercio*, published in the official gazette from December 7 to 13 of 1889, art 2 and 1,050.

[325] See, *Ley Federal de Transparencia y Acceso a la Informacion Publica Gubernamental,* passed by the Congress on April 2002, as announced in the newspaper, *Diario Reforma*, on June 10, 2002.

As a result of this major step made by the federal government, surely state governments will be positively influenced, and soon will begin giving access to judiciary and administrative procedures.

Chapter 10: Constitutional protection (Juicio de Amparo)

Another unique and important element of Mexican law is the *Juicio de Amparo,* which is a federal lawsuit under a Federal Tribunal, for alleged violations of the constitutional rights by Mexican authorities.[326] The *Juicio de Amparo* was created about 150 years ago, and has its roots in systematic and inquisitory abuses of the executive branches of the government. Through this mechanism, individuals have a strong constitutional protection through the federal judiciary power.[327] Today, this legal mechanism, in addition to the fact that it is not inconsistent with NAFTA, interferes with the effective enforcement of IP rights, by blocking injunctions, administrative declarations, or criminal penalties. While some individuals can find justice and protection through this mechanism, others have been using the *Juicio de Amparo* to the detriment of effective enforcement of IP laws.

Some of the characteristics of the *Juicio de Amparo* are its ability to legally destroy the effects of any phase of administrative or judicial procedures, as well as, its final

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[326] Ignacio Burgora, a Mexican jurist who is considered to be the most famous author in respect the *Juicio de Amparo,* defines it in its chapter "General Concept of *Juicio de Amparo"* as follows: [i]s juridical medium which preserves the constitutional guaranties of individuals against all acts of authorities that violate them (paragraph I art. 103 of the Constitution)..." See, Ignacio Burgoa, *El Juicio de Amparo*, 36th ed. (México, Editorial Porrua, 2001) at 169. See also Mexican Constitution, *supra* note, 23, arts. 103, 107, then 14 and 16. See also, *Ley de Amparo,* published in the official gazette on January 1936 as amended on 1968, 1977, and 1999, art. 1 paragraph I. [Hereinafter *Ley de Amparo*]

[327] The source of the *Juicio de Amparo* can be found directly in the Constitution in articles 103 and 107.

determinations once certain requirements are met and if the authority responsible of the act fails to provide to the Complainant (*Quejoso*) with the minimum constitutional right standards, such as *legality* (*legaliad*) and security rights (*seguridad*).[328] In other words, administrative and judicial procedures of enforcement, such as injunctions, inspections, and securitization or seizure (or seize) of products can be declared without effect in *Juicio de Amparo,* if the corresponding authority (administrative or judicial) does not follow or correctly apply the law.[329] Additionally, final determinations after applying all the available legal recourses can be challenged by the *Juicio de Amparo,* and under these circumstances, all administrative and judicial procedure might end in an *Amparo.*[330] This judicial procedure can bring inconvenience and surprises to the parties, since it may destroy the enforcement, merely because one of the simple formalities contemplated by the law is missing.

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[328] See Enrique Sánchez Bringas who states: "...[t]he *Amparo* is a constitutional trial because the action which originates it, the defenses of the sued authority, the *Litis* (dispute) and the final resolution produced are referred to define if the act of the sued authority should be invalidated for its unconstitutionality or sustained for its validity..." See Enriquez Sanchez Bringas, Derecho Constitucional, 1st ed., (México, Editorial Porrua, 2001) at 682.

[329] The *sine qua non* principles or conditions for the *Juicio de Amparo* are that only the aggrieved party should initiate it (*agravio personal y directo*); no other legal recourse should be available (*principio de definitividad*); and the aggrieved party should allege that a given authority had directly or indirectly violated its constitutional rights. If the Federal Tribunal finds that the Authority acted in violation of the aggrieved party's (Quejoso) constitutional rights, then the final determination will declare the invalidation of the act of the authority and order the restoration of constitutional rights to the aggrieved party, which could consist in restitution of seized products, the end of an injunction or the invalidation of a final determination issued by the authority.See, *Ley de Amparo supra* note 326, art 73 fr. (XIII-XV), 78, 80. Also see, Burgoa, *supra* note 326, at. 269-271, 282, 309-310, 709.

[330] Considering the principle of *Definitiviad*, the *Amparo* law suit should admit whenever the complainant (Quejosa) has no other legal recourse available by arguing that his or her constitutional rights were infringed. In other words, the *Amparo* can be always the last instance.

In other cases, the *Amparo* procedure does not destroy the effect, although it can stop the enforcement efforts for several years (through a *suspenction*), causing unnecessary delays in the enforcement.[331]

Finally, it is worth mentioning that it will be difficult for the Mexican government to change the system of constitutional protection under the "*Amparo*". First, because its basis has deep roots in the Mexican legal system, in particular, in the constitution, a complete change in the whole structure of the constitution would be required. Second, practitioners and the community of lawyers are very attached to this mechanism. However, recently some voices are beginning to be heard concerning the changes of the *Amparo*. So perhaps, in a few years, the *Amparo* will be adapted to the new reality.

Chapter 11: International cooperation

In Mexico, since its accession to GATT, a legal framework has been implemented which, not only addresses the substantive issues of IP laws, but also procedural issues (administrative and judicial) that enable the enforcement of the laws engaged when a foreign right holder is affected in Mexico. Strict territorial jurisdiction rules have become more flexible, and some examples are the recognition of copyrights abroad, as well as, the fact that other private rights issues resulting from contractual arrangements can be

[331] See, *Ley de Amparo*, *supra* note 326, art, 124.

recognized in Mexico.[332] However, the problem is in the implementation of the procedural mechanisms, such as in the case of the "fast track procedure" of domestication of foreign resolutions (*homologacion de sentencias extranjeras)*, which may cause difficulties in the enforcement of international licenses in Mexico.[333]

[332] See reforms to the federal civil codes in which the foreign law can be applied in México, as long, as the legal institution is recognized in Mexico. See, Federal Civil Code, *supra* note __ art. 13-14.
[333] See the procedure for domestication of foreign resolutions. See, *Codigo Federal de Procedimientos Civiles*, published in the official gazette on February 24, 1943, as amended until May 2000. arts. 543-548.

CONCLUSIONS

In conclusion, as analyzed in Part II of this work, Mexican laws relating to the protection of IP rights, as well as, its commercialization through technology transfer agreements, are harmonized within the North American context. The basic elements in the scope of coverage of IP rights meet the minimum standards of protection as required by NAFTA. However, some differences still exist between Mexico and Canada and the U.S. beyond the minimum standards, although these differences do not constitute a problem of harmonization or an obstacle for international technology transfers. However it is important to be aware of these differences (presented Chapter 3) for the exploitation of protected technology in Mexico.

Additionally, as discussed on Chapters 4 and 5, the deregulation of technology transfer agreements, as well as, other activities within Mexican borders produces legal issues that were never contemplated before, such as the case of the new competition laws and their implication to licensing agreements. The Mexican law in these cases still requires further refinement; otherwise, technology transferors may be in a position of legal uncertainty. However, until today, and since the deregulation of technology transfer agreements and the creation of new competition laws, no major problem has arisen, so from this perspective, technology transfer agreements should not cause any major problem.

By contrast, several adjustments are still required for an effective enforcement of IP rights in Mexico, some of which may take the form of a social conceptualization of the IP

rights, as discussed in Chapter 1, because judges and administrative authorities in charge of enforcement, may be, in some cases, tolerant with respect to the enforcement of IP rights. This occurs, despite the fact that Mexican policy makers intended the effective protection of IP rights, for the mutual benefit of Mexico, Canada and the U.S., and also for the benefits of Mexican development, as discussed in Chapter 2. However, gradually it is expected to adopt better IP protection.

In addition, as discussed in Part III of this work, most of the problems of ineffective enforcement seem to be technical in character, in particular, within the procedural legal system. The remedies provided seem to be appropriate, in particular, the dispositions about minimum amount of damages in the case of IP infringements (40% of the sale price of each product or service rendered in violation of industrial property or copyright). This constitutes adequate compensation to right holders, provided they present evidence to the authorities in respect of application of damages.

Contrary to NAFTA, the Mexican legal system is rigid and, in some cases, unclear and complicated, undoubtedly causing problems for the enforcement of the IP legal system. As discussed in Chapter 8, the extremely formalistic nature of the Mexican administrative law can derive in a weak remedy system. Also, with regard civil or commercial procedures, there is a problem relating to the ambiguity of the applicable law, whether the substantive law or the procedural law applies. Consequently, the policy makers should find better legal forms to avoid unnecessary complexities that can cause delays for, or adverse effects on, enforcement.

In contrast, a big success was achieved by the Federal congress in respect of the new law of transparency, as discussed on Chapter 9. With this major change in the procedural laws, benefits in the equity and justice of the administrative and judicial system, and consequently, in the enforcement of IP rights, are expected.

Finally, the *juicio de amparo*, definitely should be adapted, not simply for the enforcement of IP rights, but for the benefit of the whole judicial system. Despite the fact that according to NAFTA, Mexico is not obliged to change the whole legal and judicial system, the strong "effectiveness" of the *juicio de amparo* should be limited in certain respects, so practitioners will not be able to abuse this procedural mechanism to the detriment of the application of the law.

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