



## Global Business & Development Law Journal

Volume 8

Issue 1 Focus: *Legal Aspects of Conducting Business in Asia*

Article 19

1-1-1995

# Compulsory Patent Licensing in Mexico in the 1990's: The Aftermath of NAFTA and the 1991 Industrial Property Law

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### Recommended Citation

Rafael V. Baca, *Compulsory Patent Licensing in Mexico in the 1990's: The Aftermath of NAFTA and the 1991 Industrial Property Law*, 8 PAC. MCGEORGE GLOBAL BUS. & DEV. L.J. 33 (1995).

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# Compulsory Patent Licensing in Mexico in the 1990s: The Aftermath of NAFTA and the 1991 Industrial Property Law

Rafael V. Baca\*

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## I. INTRODUCTION

Undoubtedly, the formation of trade alliances among nations is becoming more important in this post-Cold War era. January 1, 1994, marks the effective date of the North American Free Trade Agreement (NAFTA)<sup>1</sup> and signals the creation of one of the largest economic trade partnerships in the world. NAFTA has also signified the lifting of many trade restrictions between the United States and Mexico. U.S. businesses with interests in preserving their patent investments, who were at one time apprehensive about compulsory patent licenses and other restrictions to licensing technology in Mexico, will be pleased with Mexico's current efforts to accommodate foreign patent rights. In fact, the threat of compulsory patent licensing in Mexico is significantly reduced under Mexico's 1991 Law for the Promotion and Protection of Industrial Property (Industrial Property Law)<sup>2</sup> and the provisions of NAFTA. NAFTA and Mexico's Industrial Property Law form the basis for current technology transfer licensing in Mexico. Despite efforts by Mexico to accommodate U.S. laws and perceptions about the exclusive rights granted by a U.S. patent, the notion of a compulsory license may seem unsettling to U.S. practitioners and businesses. Compulsory licensing laws reflect cultural and commercial differences between the two countries. Understanding these differences is essential. Therefore, this article will first introduce the basic concepts of compulsory patent licensing and Mexican patent law,<sup>3</sup> will then present the historical development of technology transfer licensing in Mexico<sup>4</sup> and will conclude with a discussion of compulsory patent licensing in Mexico under the Industrial Property Law and NAFTA.<sup>5</sup>

## II. A GENERAL SURVEY OF COMPULSORY PATENT LICENSING

### A. What is Compulsory Patent Licensing?

In general, "a compulsory license is an involuntary contract between a willing buyer and an unwilling seller imposed and enforced by the state."<sup>6</sup> Compulsory licensing for patents allows a government which granted a patent to compel the patentee to license the invention if the state, for example, does not approve of the

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1. North American Free Trade Agreement, Dec. 17, 1992, U.S.-Can.-Mex., 32 I.L.M. 298 (1993) [hereinafter NAFTA].

2. *Ley de Fomento y Protección de la Propiedad Industrial* [Industrial Property Law], 453 D.O. 4 (Mex.) (1991), translated in 5 WORLD INTELL. PROP. REP. 241 (Sept. 1991).

3. See *infra* notes 6-50 and accompanying text.

4. See *infra* notes 51-99 and accompanying text.

5. See *infra* notes 100-148 and accompanying text.

6. Gianna Julian-Arnold, *International Compulsory Licensing: The Rationales and the Reality*, 29 J.L. & TECH. 349 (1993) (citing P. GORECKI, REGULATING THE PRICE OF PRESCRIPTION DRUGS IN CANADA: COMPULSORY LICENSING, PRODUCT SELECTION, AND GOVERNMENT REIMBURSEMENT PROGRAMMES (1981)).

patent's use.<sup>7</sup> Compulsory patent licenses provide a compromise between absolute revocation of patents and the absolute property rights of the patentee to freely use the grant.<sup>8</sup>

Compulsory patent licenses may be divided into four different categories:

1. "worked in the country"—requiring that a patent be exploited within a licensing country;
2. "public interest"—governmental policy standards requiring patent licensing for the benefit of all its citizens;
3. "adequacy of supply"—involuntary patent licensing to increase market supply to satisfy demand;<sup>9</sup> and
4. "dependent patents"—forcible licensing of one patent for the use of a subsequent improvement patent thereof.<sup>10</sup>

In the first category, a government issues a compulsory license to ensure that the invention is worked in the country.<sup>11</sup> In general, countries choose to interpret worked to mean used such that the commercial benefits derived from the patent are shared by parties other than the patentee.<sup>12</sup> The theory of worked in the country imposes a duty on the patentee to use the patent, but the exclusive right to exploit the patent will not be disturbed.<sup>13</sup> Each country's interpretation of worked varies somewhat from the general theme.<sup>14</sup> For example, Canada requires that a patent be worked to its fullest commercial potential, whereas Japan requires that some part of the invention be made in that country.<sup>15</sup> Under current Mexican law, worked in the country means utilization of the patented process, the manufacture and distribution of, or the manufacture and trade with the patented product, in Mexico by the patentee.<sup>16</sup>

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7. See Cole M. Fauver, *Compulsory Patent Licensing in the United States: An Idea Whose Time Has Come*, 8 NW. J. INT'L L. & BUS. 666 (1988). A government may have several reasons to execute a compulsory patent license, such as economics, defense, health, emergency and other matters of national importance. *Id.* at 670-72.

8. David H. Henry, *Multi-national Practice in Determining Provisions in Compulsory Patent Licenses*, 11 J. INT'L L. & ECON. 325, 326 (1976) (discussing the policy reasons for compulsory patent licensing).

9. Fauver, *supra* note 7, at 668.

10. *Id.* at 668 n.11.

11. *Id.* at 671-72.

12. *Id.* at 672-73.

13. *Id.* at 670.

14. *Id.*

15. *Id.*

16. Industrial Property Law, *supra* note 2, art. 25.

Compulsory licenses granted in the public interest seek to control those patents that the state deems vital to the public welfare.<sup>17</sup> Public interest is a vague yet flexible term which allows governments to implement policy based decisions that affect its citizens. In this manner, a government can implement certain public policy objectives for the development and dissemination of technology in general.<sup>18</sup> Often governments grant compulsory licenses in the public interest in connection with patents relating to national defense, welfare, health, safety, and the environment.<sup>19</sup> To encourage growth in their own domestic industries, developing nations may subject foreign investors to compulsory licensing for the public welfare in order to quickly gain access to superior foreign technology.<sup>20</sup>

Compulsory licensing based on the doctrine of adequacy of supply occurs when a patentee is unable to meet the market demand under the patentee's exclusive right to manufacture and sell the product and is compelled for reasons of government policy to grant a license.<sup>21</sup> Often the license is granted to a patentee's competitor.<sup>22</sup> Because the terms of compulsory licenses are less favorable than the terms of a voluntary license to a patentee, governments often use compulsory licenses based on adequacy of supply as an incentive for the patentee to negotiate voluntarily with a potential licensee.<sup>23</sup> Some patent regimes guarantee the patentee a reasonable royalty for the patent and a preliminary opportunity to negotiate voluntarily with a potential licensee.<sup>24</sup> Mexican law currently provides compulsory licensing based on adequacy of supply only in situations of "emergency or national security [where the] production, supply or distribution of

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17. Fauver, *supra* note 7, at 670-71 (indicating that a common category of compulsory patent licenses granted in the "public interest" consists of health-related patents where a government determines that all citizens must have faster and cheaper access to the patented product than what the original patentee could have exclusively provided).

18. Henry, *supra* note 8, at 349.

19. See Fauver, *supra* note 7, at 670; Leroy Whitaker, *Compulsory Licensing—Another Nail in the Coffin*, 2 AM. PAT. L.Q.J. 155, 162 (1974). In the United States, statutory compulsory licensing in the public interest is found in the fields of atomic energy regulation (42 U.S.C. § 2183(1988)), pollution technology (42 U.S.C. § 1857(h)(6)(1988)) and the Clean Air Act (42 U.S.C. §7608 (1970)). Fauver, *supra* note 7, at 670 n.20. U.S. judicial grants of compulsory licenses are associated with antitrust violations (Senate Comm. on the Judiciary, Sub. Comm. on Patents, Trademarks and Copyrights, 90th Cong, 1st Sess, Compulsory Patent Licensing Under Antitrust Judgements (Comm. Print 1960)); patent misuse (Allied Research Products Inc. v. Heatbath Corp., 300 F. Supp. 656, 161 U.S.P.Q. (BNA) 527 (N.D. Ill. 1969)) and if the invention was important to public health, safety or the environment (City of Milwaukee v. Activated Sludge, Inc. 69 F.2d 577, 21 U.S.P.Q. (BNA) 69 (7th Cir. 1934); Vitamin Technologists v. Wisconsin Alumni Research Foundation 146 F.2d 941, 63 U.S.P.Q. (BNA) 262 (9th Cir. 1945)). Many other countries, such as Canada, insist on compulsory licensing of pharmaceutical patents. See M. Jean Anderson, Angela J. Paolini Ellard and Nina Shafran, *Intellectual Property Protection in the Americas: The Barriers are Being Removed*, 4 J. PROPRIETARY RTS. 2, 6 (1992).

20. Fauver, *supra* note 7, at 671.

21. *Id.* at 668-69.

22. *Id.*

23. *Id.*

24. Henry, *supra* note 8, at 326-27.

basic commodities for people would be impeded, rendered more difficult or expensive.”<sup>25</sup> Such a license would only be granted after sufficient notice by the Mexican government and after a one year period to allow the patentee to work the patent.<sup>26</sup>

Finally, compulsory licensing based on dependent or improvement patents occurs when the government determines the patent to be of greater beneficial value than the invention protected by the original or “dominant” patent and the unwilling inventor of the original patent is compelled to license.<sup>27</sup> Compulsory licensing of dependent patents is rarely granted by any country, including Mexico.<sup>28</sup> The complicated procedural aspects associated with the granting of an improvement patent could facilitate a cooperative sense of understanding of the ownership rights between the original and improvement patentees prior to the application of the compulsory license.<sup>29</sup>

Originally, the concept of compulsory patent licensing was introduced by the Paris Convention Treaty<sup>30</sup> as a means for allowing governments to compensate for the economic shortcomings associated with the failure to establish a domestic industrial base when not working an invention within its borders.<sup>31</sup> Specifically, Article 5 of the Paris Convention Treaty creates the right of countries to impose compulsory licenses.<sup>32</sup> The provisions outlined in Article 5 are now standard in most compulsory licensing legislation throughout the world.<sup>33</sup> Many current

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25. Industrial Property Law, *supra* note 2, art. 77.

26. *Id.* arts. 72, 77.

27. Julian-Arnold, *supra* note 6, at 350.

28. *Id.* at 351. For example, the last grant of a dependent compulsory license in Japan was over 20 years ago. *Id.* at 351 n.10.

29. *Id.*

30. International Convention for the Protection of Industrial Property, Mar. 20, 1883, 25 Stat. 1372, T.S. No. 379, as revised at Stockholm on July 14, 1967, 21 U.S.T. 1583 and 24 U.S.T. 2140, TLAS Nos. 6923 and 7727 [hereinafter Paris Convention].

31. Gerald Mossinghoff, *Research-Based Pharmaceutical Companies: The Need For Improved Patent Protection Worldwide*, 2 J.L. & TECH. 307, 310 (1987).

32. Paris Convention, *supra* note 30, art. 5.

33. See Julian-Arnold, *supra* note 6, at 350; Paris Convention, *supra* note 30, art. 5.

1. Member states may legislate measures providing for the grant of compulsory licenses to prevent abuses of the exclusive rights conferred by the patent, for example for failure to work.

2. Forfeiture of the patent will not be provided for except where the grant of compulsory licensing is not sufficient to prevent abuses. Forfeiture or revocation of a patent will not be instituted before the expiration of three years from the grant of the first compulsory license.

3. A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of three years from the date of application for the patent, or four years from the date of the grant of the patent whichever period expires last. It shall be refused if the patentee justifies his inaction by legitimate reasons. Such compulsory license shall be non-exclusive and shall not be transferable even if the form of grant of a sub-license except with that part of the enterprise or goodwill which exploits such license.

*Id.*

Mexican provisions regarding compulsory patent licensing incorporate key ideas from Article 5 of the Paris Convention Treaty.<sup>34</sup>

### *B. Mexico's Current Patent System*

To understand how NAFTA will affect existing Mexican compulsory patent licensing law, a fundamental understanding of the development of the current Mexican patent system is required. Mexico's Industrial Property Law outlines the current system of the Mexican patent prosecution—the process of applying for a patent. On successful prosecution of an invention, a contractual relationship between the Mexican government and the inventor-patentee is created in the form of a patent.<sup>35</sup>

Briefly, a written application for a patent is filed with the Ministry of Commerce and Industrial Development (Ministry),<sup>36</sup> an administrative arm of the executive branch.<sup>37</sup> The Ministry's administrative function of granting patents is similar to that of the United States Patent and Trademark Office.<sup>38</sup> A patent application submitted to the Ministry must indicate the country of origin,<sup>39</sup> the inventor's name and address,<sup>40</sup> payment of registration fee,<sup>41</sup> title,<sup>42</sup> and a description and drawings of the invention.<sup>43</sup> The description must be sufficiently clear and complete to allow full understanding by someone with "medium skills and knowledge in that field."<sup>44</sup>

The Ministry formally examines the application after publication in the Gazette of Industrial Property (Gazette).<sup>45</sup> The Ministry examines the invention on the merits based on the technical support of the Mexican Industrial Property Institute,<sup>46</sup> a semi-state agency with its own juridical capacity and patrimony.<sup>47</sup>

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34. Industrial Property Law, *supra* note 2, arts. 70, 73, 75-76 (providing for non-exclusive licensing, a grace period regarding patent forfeiture or revocation if a compulsory license is not sufficient to prevent abuse and prohibit the transfer of the grant to third parties except that part of the enterprise or goodwill which exploits such license similarly). The exception for enterprise or goodwill is similar to Article 5 of the Paris Convention. Paris Convention, *supra* note 30, art. 5.

35. Industrial Property Law, *supra* note 2, arts. 9, 10.

36. *Id.* art. 38.

37. *Id.* art. 1.

38. See generally 35 U.S.C. § 111 (1988); 37 C.F.R. §§ 1.51-1.81 (1993).

39. Industrial Property Law, *supra* note 2, arts. 38, 41.

40. *Id.* art. 38.

41. *Id.*

42. *Id.*

43. *Id.* art. 47.

44. *Id.* art. 47(l).

45. *Id.* arts. 50, 52- 53. The requirement of publishing the application in the Gazette before examination has drawn criticism that the patenting process is substantially delayed. Gretchen A. Pemberton and Mariano Soni, Jr., *Mexico's Industrial Property Law*, 25 CORNELL INT'L L.J. 103, 109 (1992). In terms of publishing applications, the Gazette is currently two years behind publication.

46. Industrial Property Law, *supra* note 2, art. 53.

47. *Id.* art. 47.

The Ministry may even accept or require examinations carried out by foreign examining offices.<sup>48</sup>

The 1991 Industrial Property Law provides for a twenty year patent term from the filing date of the application.<sup>49</sup> Currently, however, the application process takes from five to seven years, a time where the invention is unprotected, hence the patent is actually in force for only thirteen to fifteen years.<sup>50</sup>

### III. A HISTORICAL SURVEY OF COMPULSORY PATENT LICENSING IN MEXICO

Mexico's current patent system and related compulsory patent licensing provisions are the result of several revisions to Mexican intellectual property law over the last two decades. Mexico has quickly evolved from being a nation with an egregious lack of intellectual property protection<sup>51</sup> to a nation with a world class intellectual property system.<sup>52</sup> Few commentators would have predicted that Mexico would join the United States and Canada in free trade negotiations in such a short period of time.<sup>53</sup> The factors relating to this Mexican miracle take root in the 1970s and are substantially intertwined with Mexican foreign policy.

#### A. *Early Mexican Perception of Intellectual Property: Innovation and Protectionism*

Traditionally, Mexican intellectual property law reflected of the jurisprudential concept of the Spanish *Alcade*, or Justice of the Peace, who strengthens a community through compromise and cooperation.<sup>54</sup> Rather than viewing intellectual

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48. *Id.* art. 54. The acceptance of foreign patent office examinations is a significant improvement within the 1991 Industrial Property Law, but is not expected to have much impact on the historically slow and awkward examination procedure. See Pemberton & Soni, Jr., *supra* note 45, at 109.

49. Industrial Property Law, *supra* note 2, art. 23.

50. See Pemberton & Soni, Jr., *supra* note 45, at 109 (discussing that full patent rights are legally enforceable only when a patent has been issued). Twenty years at the date of filing the application with the Mexican patent office, less 5-7 years of examination of the application at the patent office, which leaves only 13-15 year life for an issued patent. *Id.*

51. U.S.T.R. *Defends Administration's Naming of Japan, India, Brazil Under Super 301*, 6 INT'L TRADE REP. 684 (1989) (stating that on May 25, 1989 the U.S. Trade Representative placed Mexico and six other countries on a priority "watch list" set up under the special 301 provision of the 1988 Trade Act).

52. Pemberton & Soni, Jr., *supra* note 45, at 103 (viewing the new Intellectual Property law as approaching that of the United States and other developed nations in terms of sophistication).

53. Gabriel Garcia, *Economic Development and the Course of Intellectual Property Protection in Mexico*, 27 TEX. INT'L L. J. 701, 713 (1992) (referring to a respected economist who concluded in May 1989 that the U.S.-Mexico Free Trade Agreement or Mexican adherence to the Canada-U.S. Free Trade Agreement was not feasible in the short to medium term).

54. See DAVID J. LANGUM, *LAW AND COMMUNITY ON THE MEXICAN CALIFORNIA FRONTIER: ANGLO-AMERICAN EXPATRIOTS AND THE CLASH OF LEGAL TRADITIONS, 1821-46*, 97-99 (1987). See generally *id.* at 131-51.



property as a body of individual rights, Mexicans historically perceived intellectual property as the common heritage of mankind and as a catalyst for national economic and industrial growth.<sup>55</sup>

Many of the protectionist foreign policies of the Echeverria Alvarez Administration in the early 1970s exemplified the traditional Mexican view of strength through community.<sup>56</sup> In 1972, the Law on the Registration of the Transfer of Technology and Use and Exploitation of Patents and Trademarks (1972 Law)<sup>57</sup> was enacted to strengthen the position of the Mexican licensee over the foreign licensor. Although the 1972 Law exemplified the embodiment of the protectionist fervor of the Echeverria Alvarez Administration, it would eventually harm Mexican economic growth by deterring foreign investment.<sup>58</sup> In particular, the licensing provisions of the 1972 Law enabled Mexican businesses to exploit the benefits of foreign research and development while using cheap local labor.<sup>59</sup> The provisions of this law deterred many U.S. investors who were not able to show a profit while operating in Mexico.<sup>60</sup>

The 1976 "Law of Inventions and Trademarks" (1976 Law) best represents the Mexican protectionist policy of the day.<sup>61</sup> This Law significantly changed existing patent laws and government regulations to encourage Mexican industrial growth.<sup>62</sup> The 1976 Law was intended to foster Mexican science and innovation with protectionist provisions that discouraged reliance on and the importation of foreign technology.<sup>63</sup> Under the 1976 Law, Mexico's initiative for strengthening its own scientific community through isolation from foreign influence reflects the traditional *Alcade* view of strength through community, which is embedded within the Mexican political culture.<sup>64</sup> Scientific growth, however, depends on the free flow of ideas between individuals of different nations as well as providing those individuals with the proper incentive for innovation. Typically, adequate patent protection provides individuals with the incentive for technical innovation which benefits society as a whole. However, by constricting patent protection, the

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55. See R. Michael Gadbow, *Intellectual Property and International Trade: Merger or Marriage of Convenience?*, 22 VAND. J. TRANSNAT'L L. 223, 224-25 (1989).

56. See Mark O'Brien & Carlos Muggenburg, *Salinaestroika: Recent Developments in Technology Transfer Law in Mexico*, 22 ST. MARY'S L.J. 753, 755-56 (1991).

57. *Ley Sobre el Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas* [Law on the Registration of the Transfer of Technology and the Use and Exploitation of Patents and Trademarks], D.O., Dec. 30, 1972 (Mex.).

58. See O'Brien & Muggenburg, *supra* note 56, at 755-56; *id.* at 756 n.11.

59. See generally *id.* at 755-56.

60. See Pemberton & Soni, Jr., *supra* note 45, at 104-05.

61. See O'Brien & Muggenburg, *supra* note 56, at 756-57; Pemberton & Soni, Jr., *supra* note 45, at 108-10; *Ley de Invenciones y Marcas* [Law on Inventions and Trademarks], D.O., Feb. 10, 1976 (Mex.).

62. See Alan G. Hyde and Gaston Ramírez de la Corte, *Mexico's 1976 Law of Inventions and Trademarks*, 12 CASE W. RES. J. INT'L L. 469, 469-71 (1980). The old system tended to favor importing foreign technology. See generally Fauver, *supra* note 7, at 671.

63. See Hyde & Ramírez de la Corte, *supra* note 62, at 469-71.

64. See generally LANGUM, *supra* note 54, at 97-99, 131-51.

1976 Law discouraged individual incentive for innovation which adversely affected the Mexican economy.<sup>65</sup>

Specifically, the 1976 Law reduced the patent term from fifteen to ten years.<sup>66</sup> It also provided for compulsory licensing which allowed third parties to use the patent if the Ministry determined that it was not being "adequately exploited."<sup>67</sup> In such cases, the law even required the patentee to provide technical assistance to the licensee.<sup>68</sup> However, the 1976 Law is most infamous for requiring the registration of all patent license agreements and assignments with the National Registry for the Transfer of Technology (Registry) before the transfer of technology in Mexico is to take effect.<sup>69</sup> Licensing, foreign and domestic, is a basic event in everyday commerce; thus, registering every such action became a tremendous burden to transferring technology in Mexico.<sup>70</sup>

The 1982 Technology Transfer Law (1982 Law) further complicated the patent licensing laws in Mexico.<sup>71</sup> Under the 1982 Law, a licensing agreement for technology transfer would be denied registration with the Registry if the license included the seventeen provisions listed in Articles 15 and 16.<sup>72</sup> By 1982, however, there were signs that Mexico's protectionist policies were not working. Specifically, in 1982, foreign commercial banks refused to continue providing loans to Mexico<sup>73</sup> on the country's eighty-six billion dollar foreign debt.<sup>74</sup> With foreign banks supplying unsuccessful investment and consumer loans, and with the worldwide drop in the price of petroleum, Mexico was economically de-

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65. See generally O'Brien & Muggenburg, *supra* note 56, at 755-56; Pemberton & Soni, Jr., *supra* note 45, at 108-10.

66. Law on Inventions and Trademarks, *supra* note 61, art. 40.

67. *Id.* art. 41. Under the Law of Inventions and Trademarks, a grant of a patent implied an obligation to exploit it within Mexico. *Id.* The 1976 law defined exploitation as the permanent use of the patented process or the manufacture of the patented product by its owner or a licensee "in volumes that constitute an effective industrial exploitation and under suitable conditions to quality and price." *Id.* art. 43. In addition, the patent was required to be exploited within 3 years from the date of patent issuance. *Id.* art. 41. A patent lapsed automatically after 4 years from the patent issuance date if it was inadequately exploited. *Id.* art. 48. No excuses were permissible if a patent was not adequately exploited. *Id.* art. 50.

68. *Id.* arts. 57, 73.

69. *Id.* art. 45.

70. Typically, licensing is between two private parties, licensor and licensee. See generally HARRY R. MAYERS & BRIAN G. BRUNSVOLD, *DRAFTING PATENT LICENSE AGREEMENTS* (3d. ed. 1991). Only a few exceptions require registration with the government, such as nuclear energy patents. See 42 U.S.C. § 2183 (1994).

71. *Ley Sobre el Control y Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas* [Law on the Control and Registration of the Transfer of Technology and the Use and Exploitation of Patents and Trademarks], D.O., Jan 11, 1982 (Mex.).

72. *Id.* arts. 15, 16.

73. U.S. Int'l Trade Comm., *The Likely Impact on the United States of a Free Trade Agreement with Mexico*, Report to the Committee on Ways and Means of the United States Senate on Investigation No. 332-297 Under Section 332 of the Tariff Act of 1930 (1991) 1-1.

74. *Id.*

vastated.<sup>75</sup> The Administration of Miguel de la Madrid Hurtado recognized Mexico's problems and sought to dismantle the nation's protectionist policies.<sup>76</sup>

*B. Development of Current Mexican Intellectual Property: The Lifting of Protectionism*

The 1987 amendments to the 1976 Law of Inventions and Trademarks (1987 Law) attempted to improve the past wrongs of over-protectionism; however, there were some serious difficulties.<sup>77</sup> The 1987 Law still allowed for compulsory licensing of patents and the registration of all licensing activities.<sup>78</sup> It appeared that no significant improvement was made to Mexican intellectual property law at that time.

In 1988, the United States Trade Representative (U.S.T.R.) began a "watch list" and a "priority watch list" of those countries whose intellectual property regimes unjustifiably burdened U.S. commerce under both Section 301 and the Special 301 remedies of the U.S. Trade Act.<sup>79</sup> Accordingly, the U.S. Trade Act provides an outline for United States negotiation objectives regarding intellectual property and procedures dictating the identification of countries that deny adequate protection of, or market access to, intellectual property rights.<sup>80</sup> Subsequently, on May 25, 1989, the U.S.T.R. placed Mexico and eight other countries on the "priority watch list" stating that they did not meet the U.S. standard for intellectual property as proposed in the Uruguay Round of the General Agreement of Tariffs and Trade (GATT).<sup>81</sup> In many respects, being placed on the "priority watch list" provided Mexico with greater incentive to improve its intellectual property laws.

On January 9, 1990, Mexico enacted the 1990 Regulations to the Technology Transfer Law (1990 Law)<sup>82</sup> which significantly restricted the degree of government intervention in obtaining a technology transfer license in Mexico. The 1990

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75. *Id.*

76. *Id.* at 1-2. One example of Mexico's intention to break down its protectionist policies is its signing of the General Agreement on Tariffs and Trade (GATT) in 1986. *See* U.S. Int'l Trade Commission, Review of Trade and Investment Liberalization Measures By Mexico and Prospects for Future U.S.-Mexican Relations, Investigation No. 332-282, Phase I: Recent Trade and Investment Reforms Undertaken by Mexico and Implications for the United States 4-3 to 4-7 (April 1990)[hereinafter USITC April 1990 Report].

77. *Ley de Invenciones y Marcas* [Law of Inventions and Trademarks], D.O., Jan. 17, 1987 (Mex.). One important improvement was extending the patent term from 10 to 14 years. *Id.* art. 40.

78. *Id.* art. 45.

79. United States Trade Act, 19 U.S.C. § 2901(b)(10) (1988).

80. *Id.*

81. *USTR Fact Sheets on Super 301 Trade Liberalization Priorities and Special 301 on Intellectual Property*, 6 INT'L TRADE REP. 715 (1989).

82. *Reglamento de la Ley Sobre el Control y Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas* [Regulation on the Law of the Control and Registration of the Transfer of Technology and Use and Exploitation of Patents and Trademarks], D.O., Jan. 9, 1990 (Mex.) [hereinafter 1990 Regulations].

Law allowed for more freedom between the licensor and licensee to enact a technology transfer license with fewer bureaucratic requirements.<sup>83</sup> Under the 1990 Law the Ministry may exempt a license from the registration requirement of the 1976 Law for at least one of nine criteria determined by the Ministry.<sup>84</sup> On granting an exemption, the 1990 Law requires the licensee to provide an oath promising to fulfill at least one of the exemption requirements within a three year period.<sup>85</sup> Any amendment to the exempted license, however, must undergo an independent registration evaluation by the Ministry.<sup>86</sup> Also within the three year period, the Ministry may ask for evidence demonstrating that the exemptee has fulfilled the promise to stay within the exemption requirements.<sup>87</sup> One may argue that too much discretionary power is given to the Ministry in determining which licenses should be exempted. Nonetheless, the language of the exemption criteria indicates a strong willingness by Mexico to allow foreign investment through technology transfer licensing. Specifically, this language promotes industrial development within Mexico such that the Ministry would be more inclined to grant exemptions to increase foreign investment than to deny Mexico industrial growth.<sup>88</sup>

In anticipation of the spring release of the 1990 U.S.T.R. Watch List, the Carlos Salinas de Gortari Administration announced on January 24, 1990 its intention to submit a new Industrial Property Law to the Mexican Congress by the end of the year.<sup>89</sup> Many leaders in the United States were impressed with Mexico's strong initiative to improve its intellectual property laws. For example, seven U.S. senators wrote a letter asking U.S. Trade Representative Carla Hill to

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83. *Id.*

84. *Id.* art. 53(I) & (II). The nine criteria of the 1990 Law are as follows:

- (1) creation of permanent jobs;
- (2) improvement of technical qualifications of human resources;
- (3) access to new foreign markets;
- (4) manufacture of new products in Mexico, especially if they substitute for imports;
- (5) improvement of Mexico's balance of payments;
- (6) decrease in unit production costs, measured in constant pesos;
- (7) development of domestic suppliers;
- (8) use of technologies that do not contribute to ecological deterioration; or
- (9) initiation of further development of technological research and development activities in production units or in related research centers.

*Id.* See also O'Brien & Muggenburg, *supra* note 56, at 760.

85. Regulations, *supra* note 82, art. 53(III).

86. *Id.* art. 10.

87. *Id.* art. 55.

88. *Id.*

89. *United States Trade Representative's Fact Sheet on Offending Countries Under "Special 301" Provision of Trade Act*, 4 World Intell. Prop. Rep. (BNA) 158 (June 1990). See SECRETARIA DE COMERCIA Y FOMENTO INDUSTRIAL, PROGRAMA NACIONAL DE MODERNIZACIÓN INDUSTRIAL Y DEL COMERCIO EXTERIOR 1990-94, paras. 137-45 (1990) (Mex.).

remove Mexico from the "priority watch list."<sup>90</sup> In May of 1990, Salinas submitted a draft of the bill for the new Industrial Property Law.<sup>91</sup> The resulting 1991 Industrial Property Law became effective on June 26, 1991.<sup>92</sup>

The United States recognized this new spirit of economic openness for foreign investment and better legal protection of intellectual property in Mexico. By 1990, the estimated value in trade between the United States and its third largest trading partner, Mexico, was fifty-nine billion dollars.<sup>93</sup>

The United States had hoped that NAFTA would follow the guidelines applied by the successful U.S.-Canadian Free Trade Agreement (CFTA) effective January 1, 1989.<sup>94</sup> The intellectual property standards within NAFTA were to be based on the standard from the Trade-Related Intellectual Property Rights (TRIPS) negotiations from the Uruguay Round of GATT.<sup>95</sup> The NAFTA provisions allowing for the grant of a compulsory license only in situations of emergency and public noncommercial use are particularly similar to those of TRIPS.<sup>96</sup>

On entering NAFTA negotiations, the U.S. and Mexico each had a wide range of interests to be addressed. U.S. negotiators, for example, sought to narrow the terms for compulsory licensing and any sort of judicial review of a compulsory

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90. USITC April 1990 Report, *supra* note 76, at 6-2 (explaining that this letter was sent by the senators on the same day that President Salinas announced his intentions for a new intellectual property law-January 24, 1990). Mexico was eventually removed from the list upon the Mexican government's plan to improve existing Mexican intellectual property laws. *Id.*

91. Pemberton & Soni, Jr. *supra* note 45, at 108.

92. See Industrial Property Law, *supra* note 2.

93. Pemberton & Soni, Jr., *supra* note 45, at 104.

94. M. Jean Anderson, Angela J. Paolini Ellard & Nina Shaffran, *Intellectual Property Protection in the Americas: The Barriers are Being Removed*, 4 J. PROPRIETARY RTS. 2, 3. In terms of intellectual property certain elements were exempted from the CFTA, referred to as "Cultural Industry Exemptions," under Canadian demand. *Id.* Canada was allowed to continue the compulsory licensing of pharmaceutical patents by foreign drug manufacturers by refusing any guaranteed period exclusively in the Canadian market. *Id.* See H. Commons (Can.), Bill C-22, 33d Parl., 2d Sess. (1986). Compulsory licensing allows a Canadian manufacturer of generic drugs to produce a drug, newly patented in a foreign country, by simply notifying the patentee and paying a fixed 4% royalty fee. *Id.*

95. Anderson, et al., *supra* note 94, at 3. The United States and Canada have agreed to adhere to the Trade-Related Intellectual Property Rights concessions in the context of NAFTA. *Id.* Mexico, who disagrees with narrowing some compulsory licensing provisions within TRIPS, participated multilaterally in TRIPS and NAFTA negotiations. *Id.* See generally Arthur Dunkel, *Draft Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, Submitted by GATT Director General Arthur Dunkel*, 6 World Int. Prop. Rep. (BNA) 42 (1992) [hereinafter TRIPS]. Currently, any outcome of the TRIPS negotiations is still delayed. *Id.* The TRIPS negotiations within the GATT Uruguay Round caused a great "North-South" policy division between the industrialized nations and many developing countries, including Mexico. See Alan S. Gutterman, *The North-South Debate Regarding the Protection of Intellectual Property Rights*, 28 WAKE FOREST L. REV. 89, 98, 101-02 (1993). Industrial nations favored compulsory licenses only in extraordinary circumstances and opposed the developing nations proposal with broad compulsory licensing provisions that were not limited to local manufacture and discriminatory as to subject matter. *Id.* It was very clear that the industrial nations did not want developing governments to impose compulsory licensing provisions in order to gain access to technology at the expense of the manufacturers of the industrial nations. *Id.*

96. See *infra* note 131 and accompanying text.

licensing order.<sup>97</sup> The U.S. saw NAFTA as a model for liberalizing trade and investment to encompass the entire western hemisphere as a free trade area, where such a plan is designated as Enterprise for the Americas Initiative (EAI).<sup>98</sup> Mexican negotiators, on the other hand, hoped to incorporate the key features of the 1991 Industrial Property Law and to abolish all existing controls on licenses and technology transfer.<sup>99</sup>

#### IV. A SURVEY OF CURRENT COMPULSORY PATENT LICENSING IN MEXICO

The intellectual property provisions of NAFTA, Article 17, are perhaps the most comprehensive of any multinational trade agreement. The Article 17 provisions of NAFTA reinforce and internationalize the important advancements in intellectual property protection recently made by Mexico through the 1991 Industrial Property Law and by Canada through the new Canadian Patent law, C-91.<sup>100</sup> NAFTA and the 1991 Industrial Property Law define the current regulations regarding compulsory patent licensing in Mexico. Most of the current regulations can be found within the 1991 Industrial Property Law.<sup>101</sup>

##### A. *Compulsory Patent Licensing Under Mexico's 1991 Industrial Property Law*

The 1991 Industrial Property Law (1991 Law) repeals the 1982 Transfer of Technology Law and implementing regulations.<sup>102</sup> Basically, anyone wishing to license technology within Mexico's borders need only follow the provisions found in the 1991 Law.<sup>103</sup> The 1991 Law does not require license agreements and assignments to be registered with the National Registry of Transfer of Technology as did the 1982 Law.<sup>104</sup> The new law simply requires that technology transfer license agreements and assignments be recorded with the Ministry to allow the

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97. Anderson, et al., *supra* note 94, at 5.

98. *Id.* at 8.

99. *Id.* at 5.

100. Canadian Patent Act, R.S.C. ch. P-4 (1985), amended by S.C. 1993, c.2 (Related Matters) (Can.). The newly amended licensing provisions of the Canadian Patent Act have been in effect as of Feb. 15, 1993. The new amendments essentially eliminate the Canadian pharmaceutical compulsory licensing scheme for those patents not researched or discovered in Canada. *Id.* at § 11(2).

101. See *infra* notes 102-134 and accompanying text.

102. Industrial Property Law, *supra* note 2, art. 2, § 2 (Transitory).

103. See *id.* arts. 62-77.

104. See *Ley Sobre el Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas* [Law on the Registration of the Transfer of Technology and the Use and Exploitation of Patents and Trademarks], D.O., Dec. 30, 1972 (Mex.); *Ley Sobre el Control y Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas* [Law on the Control and Registration of the Transfer of Technology and the Use and Exploitation of Patents and Trademarks], D.O., Jan. 11, 1982 (Mex.).

enforceability of the license against third parties.<sup>105</sup> Under the new law, there are no further restrictions in obtaining a license like the seventeen provisions of the 1982 Technology Transfer Law;<sup>106</sup> other than recording the license with the Ministry.

Patent owners and investors should receive better protection under the new compulsory licensing provisions.<sup>107</sup> Under the new law, the imposition of compulsory licenses has been limited. Although there is no obligation under the new law to work a patent, the Ministry may issue compulsory licenses to a third party when a patent is not worked within three years from the date the patent was granted in Mexico, or four years from the date the patent application was filed by the Ministry, whichever is later.<sup>108</sup> Moreover, a patentee under the new law may contest the grant of a compulsory license under two circumstances. A patentee may oppose the grant of a compulsory license based on either "justified or economical reasons" pursuant to the Paris Convention<sup>109</sup> or by proving that the patentee or licensee has been "carrying out the import of" the patented product or product of a patented process within Mexico.<sup>110</sup> Additionally, prior to the grant of compulsory license, the patentee has a one year grace period in which to work the patent before a compulsory license is granted.<sup>111</sup>

To obtain a compulsory license, an applicant "shall have the technical and economic capacity to efficiently work the patented invention."<sup>112</sup> The Ministry will hold a hearing between the applicant and patentee and will decide on the grant of a compulsory license.<sup>113</sup> "If the Ministry decides to grant such a license, it will set forth its duration, conditions, field of application, and amount of royalties that correspond to the holder of the patent."<sup>114</sup> In accordance with the Paris Convention, a compulsory license under the new law may not be exclusive.<sup>115</sup> Thus, with the Ministry's authorization, a licensee of a compulsory license may only assign a license together with the part of the business in which the licensed patent is

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105. Industrial Property Law, *supra* note 2, arts. 62-68. The United States has similar procedures for technology transfer licensing within its borders. See 35 U.S.C. § 261 (1988) (indicating domestic licenses must be recorded with the patent office within three months prior to the effective date of the license). However, the United States requires regulatory approval by the Department of State regarding technology transfer licensing for export. See Export Admin. Amends. Act of 1981 and 1985 and the Multinational Export Control Enhancement Amends. Act, 50 App. U.S.C. §§ 2401-2402 (1989).

106. See *supra* note 71-72 and accompanying text (discussing the former restrictions).

107. Manuel Gómez-Maqueo and Bufete Sepúlveda, *Analysis of Mexico's New Industrial Property Law*, 42 PAT., TRADEMARK AND COPYRIGHT J. 381, 385 (1991). Compulsory Licensing Provisions of Mexican Industrial Property Law of 1991, Chapter 6, Articles 70 - 77, are reprinted and attached hereto as an Appendix.

108. Industrial Property Law, *supra* note 2, art. 70.

109. See Paris Convention, *supra* note 30.

110. Industrial Property Law, *supra* note 2, art. 70.

111. *Id.* art. 72.

112. *Id.* art. 71.

113. *Id.* art. 72.

114. *Id.*

115. *Id.* art. 76.

worked.<sup>116</sup> At the request of either the patentee or licensee, the Ministry may decide, after a hearing, to amend the conditions of a compulsory license when “supervening causes so justify,” particularly when the patentee has granted a contractual license more favorable than the compulsory license.<sup>117</sup>

The new law provides for compulsory patent licensing in the public interest due to “reasons of emergency or national security” where the Ministry, through a declaration published in the Official Journal, will determine which patents may be worked through the grant of public utility licenses.<sup>118</sup> However, the law will not grant rights conferred by a patent to inventions in transportation vehicles of other countries when such vehicles are in transit within Mexico.<sup>119</sup> Nor will rights be granted for inventions which endanger nuclear safety.<sup>120</sup> The law provides for compulsory licensing based on adequacy of supply where the “production, supply, or distribution of basic commodities for the people would be impeded, rendered more difficult or expensive.”<sup>121</sup>

A compulsory license may be revoked, if a licensee fails to work a patent within two years from the grant unless “justified reasons exist in the opinion of the Ministry” to continue the license.<sup>122</sup> Under a compulsory license, royalty payments will cease when a patent lapses.<sup>123</sup> A patent may lapse if either its term expires or its governmental fees remain unpaid.<sup>124</sup> Also, a patent nullity action declaring a patent “null and void” may be brought within five years from the date of the patent’s publication in the Gazette.<sup>125</sup> Prior to the new law, parties could file nullity actions at anytime during a patent’s life.<sup>126</sup>

Although U.S. industry has criticized Mexican compulsory licensing provisions, arguing that compulsory licensing gives excessive discretion to department officials and limits the possibilities for investment, most U.S. patent holders should not expect compulsory patent licenses granted by the Mexican government to be commonplace.<sup>127</sup> Apparently, no compulsory license in Mexico has ever been issued, and most Mexican patent attorneys are not concerned that compul-

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116. *Id.*

117. *Id.* art. 74.

118. *Id.* art. 77. The Paris Convention provides for each country to legislate measures for compulsory patent licensing. See Paris Convention, *supra* note 30, art. 5(A)(2). However, the U.S. has no formal statutory provisions for compulsory patent licensing within its Patent Act. See Fauver, *supra* note 7, at 671-76, 668 (discussing the pros and cons for adopting formal statutory provisions for compulsory patent licensing).

119. Industrial Property Law, *supra* note 2, art. 22, § IV.

120. *Id.* art. 51.

121. *Id.* art. 77.

122. *Id.* art. 75.

123. *Id.* arts. 73, 80.

124. *Id.* art. 80.

125. *Id.* art. 78.

126. Gómez-Maqueo & Sepúlveda, *supra* note 107, at 383.

127. USITC April 1990 Report, *supra* note 76, at 6-4.



sory licenses will be granted in the future.<sup>128</sup> The Mexican government has stated that compulsory licensing will be allowed only in the face of "flagrant patent abuse."<sup>129</sup>

### B. NAFTA's Intellectual Property Provisions: A Furtherance of the Industrial Property Law

In general, NAFTA buttresses many of the provisions enumerated in the 1991 Intellectual Property Law of Mexico. For example, Article 1709:12 provides for a patent term of at least twenty years from the date of filing.<sup>130</sup> NAFTA Article 1709:7 provides that importation meets the working requirement of the patent, which will allow patent holders within NAFTA nations to manufacture and import among the signatory nations keeping full intellectual property rights.<sup>131</sup> Articles 1709 and 1718:4 require all countries that access NAFTA, including the signatory nations, to protect pipeline products.<sup>132</sup> Under the pipeline protection scheme, a developing nation, such as Mexico, would provide a market exclusivity for products which are covered by a valid patent in the country of origin and not already on the market in the developing country.<sup>133</sup> Pipeline protection safeguards the investment of the original inventors without subjecting them to long delays between issuance of a patent and marketing the product, while preserving to some extent the existing market positions of domestic firms.<sup>134</sup>

### C. Compulsory Patent Licensing Under NAFTA

NAFTA addresses compulsory licensing in Article 1709:10 §§ (a)-(f):

Where the law of a Party allows for use of the subject matter of a patent, other than that use allowed under paragraph 6, without authorization of the

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128. Pemberton & Soni, Jr., *supra* note 45, at 122 (referring to interviews with Mariano Soni, Jr., a Mexican patent attorney).

129. *Id.*; see SECRETARIA DE COMERCIO Y FOMENTO INDUSTRIAL, *supra* note 89, at para. 141.

130. NAFTA, *supra* note 1, art. 1709:12. Article 1709:12 gives the option of 17 years from the date of the grant such that it will not effect U.S. law. *Id.* Articles 1703:1 and 1709:7 require equal national treatment of intellectual property. *Id.* arts. 1703:1, 1709:7. Accordingly, the United States should amend 35 U.S.C. 104 (1988)—which gives preference to inventions made in the United States over foreign countries—to give equal preference to Mexico and Canada.

131. NAFTA, *supra* note 1, art. 1709:7. This is a key provision in NAFTA which does not allow governments to implement compulsory licensing because products are not manufactured locally. *Id.*

132. *Id.* arts. 1709, 1718:4.

133. Otto A. Stamm, *GATT Negotiations for the Protection of New Technologies*, 73 J. OF THE PAT. TRADEMARK OFF. 680, 689 (1991). This market exclusivity would run only until the patent in the country of origin expires. *Id.*

134. *Id.*

right 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;
- b. 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 national emergency or other circumstances of extreme urgency, the right holder shall, nevertheless, be notified as soon as reasonably practicable. In the case of public non-commercial use, where the government or contractor, without making a patent search, knows or has demonstrable grounds to know that a valid patent is or will be used by or for the government, the right holder shall be informed promptly;
- c. the scope and duration of such use shall be limited to the purpose for which it was authorized;
- d. such use shall be non-exclusive;
- e. such use shall be non-assignable, except with the part of the enterprise or goodwill that enjoys such use;
- f. any such use shall be authorized predominantly for the supply of the Party's domestic market; . . .<sup>135</sup>

Section 10 requires an application for a compulsory license be considered on its merits and that the applicant first make efforts to obtain authorization from the right holder on reasonable commercial terms.<sup>136</sup> Section 10 also provides for public interest compulsory licensing in cases of national emergency, extreme urgency, or in cases of public non-commercial use.<sup>137</sup> In such cases the scope and duration of a compulsory license shall be limited to the purpose for which it was authorized.<sup>138</sup>

A Party, however, may provide limited exceptions to the exclusive right conferred by a patent provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably

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135. NAFTA, *supra* note 1, art. 1709:10.

136. *Id.* art. 1709:10 (a)-(b).

137. *Id.* art. 1709:10(b).

138. *Id.* art. 1709:10(c).

prejudice the legitimate interests of the patent owner, taking into account the legitimate interests of other persons.<sup>139</sup>

As with the Paris Convention,<sup>140</sup> Section 10 requires that a compulsory license be non-exclusive and non-assignable, except with that division of the enterprise or goodwill which enjoys such rights.<sup>141</sup> Such a compulsory license shall be authorized predominately for the supply of the domestic market.<sup>142</sup> Section 10 also limits the scope for dependent patent compulsory licensing exclusively as a remedy for an adjudicated violation of domestic law regarding anticompetitive practices.<sup>143</sup>

#### *D. GATT Arguments with Respect to NAFTA's Compulsory Licensing Provisions*

NAFTA's intellectual property provisions are perhaps the most comprehensive of any multinational trade agreement. To date, it has achieved more than the TRIPS negotiations of the GATT considering that the Uruguay round, launched in September 1986, started long before NAFTA was realistically addressed and has yet to be agreed upon.<sup>144</sup>

In terms of compulsory licensing, TRIPS Articles 27(1), 31 and 65(4) strictly limit the conditions rendering a grant of a compulsory license to cases of adjudicated antitrust, national emergency, and public noncommercial use.<sup>145</sup> However, NAFTA does not necessarily sanction compulsory licensing for antitrust cases.<sup>146</sup> NAFTA allows dependent patent compulsory licensing as a remedy for adjudicated violations of anticompetitive practices.<sup>147</sup> Accordingly, NAFTA

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139. *Id.* art. 1709:6.

140. *Id.* art. 1907:10(d)-(e); *cf. supra* notes 33-34 (discussing the Paris Convention and the Mexican Industrial Property Law).

141. NAFTA, *supra* note 1, art. 1709:10 (d)-(e).

142. *Id.* art. 1709:10(f).

143. *Id.* art. 1709:10(l). *See also id.* art. 1720:6 which states "no party shall be required to apply Article 1709:10 . . . to use without the authorization of the right holder where authorization for such use was granted by the government before the text of the Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations become known."

144. *See generally* TRIPS, *supra* note 95.

145. TRIPS, *supra* note 95, arts. 27(1), 31, 65(4).

146. NAFTA, *supra* note 1, art. 1709:10(k) provides as follows:

[T]he Party shall not be obligated to apply the conditions set out in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anticompetitive. The need to correct anticompetitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions that lead to such authorization are likely to recur. . . .

*Id.*

147. *Id.* art. 1709:10(l).

offers a higher standard for the protection of dependent patent compulsory licenses than TRIPS. In broader language than NAFTA, TRIPS Article 31(1) allows improvement patent compulsory licensing if the second patent relates to an invention that is an "important technical advance of significant economic value."<sup>148</sup>

## V. CONCLUSION

In conclusion, the 1991 Industrial Property Law and NAFTA indicate that U.S. businesses should now fear less about their investments being subjected to compulsory patent licensing in Mexico. These laws have also opened a wide arena for foreign investment and industrial growth in Mexico as a whole. For the transnational practitioner, the 1991 Industrial Property Law and NAFTA allow for greater business activity within Mexico without the legal restrictions imposed by the past Mexican governments. The Industrial Property Law has greatly restricted the conditions wherein the Mexican government can impose a compulsory patent license. Essentially, a license will only be imposed in the face of "flagrant patent abuse."<sup>149</sup> Also, under the new law, the Mexican government cannot use a compulsory patent license as a tool to implement nationalistic protectionist policies as it did in the past. Specifically, a foreign patentee is not obligated to initially work a patent in Mexico to avoid a compulsory license<sup>150</sup> and a foreign patentee may contest any grant of a compulsory patent license by the Mexican government based on either "justified or economical reasons" pursuant to the Paris Convention or by proving that the patentee or licensee has been "carrying out the import of" the patented product or product of a patented process in Mexico.<sup>151</sup> In short, by restricting circumstances where the Mexican government can implement a compulsory license, the Industrial Property Law encourages foreign patentees and investors to boldly participate in Mexican industrial business. In addition to the Industrial Property Law, NAFTA has provided the practitioner with the concept of "pipeline protection."<sup>152</sup> Pipeline protection allows a local practitioner to assist a foreign patentee in full exploitation of the commercial potential of an existing patent in the Mexican market without the legal tensions of the past which arose with compulsory patent licensing. Pipeline protection, under NAFTA, protects the investment of an original investor in a foreign patent without being subjected to long delays between the issuance of a Mexican patent and marketing of the patented product within Mexico, while

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148. TRIPS, *supra* note 95, art. 31(1).

149. SECRETARIA DE COMERCIO Y FOMENTO INDUSTRIAL, *supra* note 89, at para. 141.

150. *See* Pemberton & Soni, Jr., *supra* note 45, at 122.

151. *Id.*

152. NAFTA, *supra* note 1, arts. 1709, 1718:4.

preserving to some extent the market positions of domestic Mexican firms.<sup>153</sup> However, it can be said that pipeline protection and the more restrictive terms of compulsory patent licensing are but only one aspect of the recent effort to strengthen the economic relationship developed between the United States and Mexico which will undoubtedly continue to grow well into the next century.

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153. See Stamm, *supra* note 133, at 689.

APPENDIX

Mexico's 1991 Law for the Promotion and Protection of Industrial Property  
Chapter 6: Licenses and Assignments of Rights<sup>154</sup>

Article 70. Regarding inventions, after three years from the date of grant of the patent, or four years from the filing date of the application, whichever is later, any person may apply to the Ministry for the grant of a compulsory license to work the invention, when it has not been worked, unless there are justified technical or economical reasons.

There will be no grant of a compulsory license when the holder of the patent or the person to whom a contractual license has been granted has been carrying out the import of the patented product or the product obtained by the patented process.

Article 71. Whoever applies for a compulsory license shall have the technical and economical capacity to efficiently work the patented invention.

Article 72. Before the grant of the first compulsory license, the Ministry will provide the holder of the patent with the opportunity of working it within a term of one year from the date of personal notification given to him.

Following a hearing with the parties, the Ministry will decide on the grant of a compulsory license, and if the Ministry decides to grant it, it will set forth its duration, conditions, field of application and the amount of royalties that correspond to the holder of the patent.

If a compulsory license is applied for and there is another license, the person who has the earlier license shall be notified and given the opportunity to be heard.

Article 73. The Ministry may administratively declare the lapsing of a patent, if after a term of two years from the date of grant of the first compulsory license the holder of the patent does not prove its working or the existence of a justified reason, in the opinion of the Ministry.

Royalty payments under a compulsory license will cease when the patent lapses, in the case provided for in the preceding paragraph, or for any other cause established in this Law.

Article 74. At the request of the holder of the patent or of the person whom a compulsory license has been granted, the conditions of such license may be amended by the Ministry, when supervenient causes so justify and, particularly,

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154. Industrial Property Law, *supra* note 2, arts. 70-77.

when the holder of the patent has granted contractual licenses more favorable than the compulsory license. The Ministry shall decide on the amendment of the conditions of the compulsory license after a hearing with the parties.

**Article 75.** The person to whom a compulsory license has been granted shall begin the working of the patent within two years from the date of grant thereof. Failure to comply with this obligation, unless justified reasons exist in the opinion of the Ministry, will lead to the revocation of the license *ex officio* or at the request of the holder of the patent.

**Article 76.** A compulsory license will not be exclusive. The person to whom it is granted may assign it only with the Ministry's authorization and provided he assigns it together with the part of the business in which the licensed patent is worked.

**Article 77.** Due to reasons of emergency or national security, and during the time such situation or cases subsist, the Ministry, through a declaration to be published in the Official Journal, will determine that certain patents may be worked through the grant of public utility licenses, in cases where, were it otherwise, the production, supply or distribution of basic commodities for the people would be impeded, rendered more difficult or expensive.

For the grant of these licenses, the terms of the second paragraph of article 72 will apply, and such licenses may not be exclusive or assignable.