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Re.: General guidelines to licensing trademarks and patents in Mexico

Dear Clients and Colleagues

The purpose of this paper is to give some notions about the impact of Mexican law on the contractual relation between the parties in a license agreement.

As a general rule, licenses on trademarks and patents are considered commercial agreements, as opposed to civil agreements and as such, the parties may freely stipulate most of the provisions.

However, there are a few restrictions imposed by public order provisions that should be considered when licensing patents and trademarks in Mexico.

1. Subject matter of the license.

It is necessary to have a Mexican patent or a registered trademark to license it in Mexico. Due statutory provision, Mexican patent applications and trademark applications may also be licensed, without any restrictions, including payment of royalties (unlike other Latin American countries).

Trade dress is not explicitly regulated in Mexico, thus licenses on trade dress are very questionable.

Mexico is a first-to-file country. There are no common-law rights and the only way to obtain proprietary rights on a trademark is through its registration with the Mexican Patent and Trademark Office (MPTO).

Trademark and patent applications do not provide the right to the exclusive use of the trademark or invention. Therefore, from an academic point of view, it is unclear what sort of right does the licensee receive in the case of licenses on pending trademarks and pending patent applications. However, the statutory provision is absolutely clear

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when allowing licenses on non-registered trademarks and non-patented inventions, provided that there is on file a Mexican application for such trademark or invention.

It is recommended, to specify the licensed trademark or patent by its application/registration/patent number but identification of the licensed rights may be general, for example: "all trademark applications and/or registrations owned by the Licensor in Mexico" provided that there are grounds to determine the scope of the license at a given time.

Unilateral licenses are not valid in Mexico. The license must be executed by the licensor and by the licensee.

2. Formalities

From an academic perspective a verbal license is fully valid and enforceable between the parties. However, for the sake of certainty, a written license is recommended.

Mexican law does not require formalities such as notarizations or legalizations for the validity of a license. However, notarization is suggested if the license is to be recorded with the MPTO (the following section contains a deeper explanation).

3. Recordal

Recordal of the license with the MPTO is not compulsory, but highly recommended.

Patent and Trademark licenses are valid and enforceable between the parties without recording them but the use of a trademark or patent by a licensee inures for the benefit of the registrant or patentee only if the license is recorded with the MPTO.

The recordal of the license with the MPTO does not imply government approval.

Unrecorded licenses may have adverse consequences. In the case of trademarks, the registration may become vulnerable to cancellation due non-use. In the case of patents, the risk of compulsory licensing may increase, although compulsory licenses are extremely unusual in Mexico.

Further, according to an old precedent from the courts confirmed by the MPTO's current practice, the user of a patent or registered trademark under a recorded license is not liable for trademark or patent infringement if the use of the registered trademark or patent infringes third party's rights, such third party must first file and successfully prosecute an action to invalidate the infringing registration or patent before filing an infringement action.

In the case of corporations and other legal entities the MPTO usually requests

evidence proving that the party's representatives are authorized to execute the license. The MPTO accepts an affidavit certified by a notary public authenticated with an Apostille or legalized by the nearest Mexican consul in case the notary's country is not a party of The Hague Convention. However the MPTO has no actual authority to request such notarization, thus it is possible to record non-notarized licenses although the recordal procedure would take much more time than in the case of a notarized and authenticated or legalized agreement.

All documents recorded against trademark registrations, trademark applications, published pending patent applications and patents become of public record and any person may review them and obtain copies. If the license contains confidential or sensitive information, it would be a good idea to execute and record a summary only without disclosing any sensitive information.

4. Applicable law

The parties are free to choose the law that will govern the license agreement.

Of course, there are some legal consequences that may not be regulated by foreign law. For example, failure to obtain the trademark registration or patent, or the cancellation of the Mexican registration of the licensed trademark may be considered a breach of the agreement, no matter what the applicable law may provide.

Use of a trademark on goods made in Mexico for export only is considered use of the mark in our country, regardless what the license or a foreign provision may stipulate.

5. Forum

The parties may submit to the jurisdiction of the courts of the domicile of either party but may not designate a third party's courts. If the parties designate the domicile of one of the parties then the other party must expressly waive the venue of the courts of its present or future domicile.

Mexican law allows the enforcement of foreign court decisions, provided that they are final. Mexican courts may refuse to enforce the decision if they find that due process of law was not observed. The service of summons is a particularly sensitive issue. If the defendant's domicile is in Mexico and there is the intention to eventually enforce the foreign court decision in Mexico, the service of summons must be done according to the Mexican procedural laws through a Mexican court.

The parties may choose arbitration to settle disputes in connection to the license and they are free to stipulate the rules, language and place of the arbitration.

6. Royalties

Monetary consideration is not required for the validity and enforceability of the

license.

Parties may freely stipulate royalties: amount, form and time of payment; place of payment and currency. Unlike other countries, there are no restrictions regarding stipulating and paying royalties when the licensed industrial property right is registration or patent pending by the time the payment is due.

Mexican law provides a withholding tax (WT) when the payment of royalties is to be made to entities or individuals abroad. The WT varies depending on any tax treaties between Mexico and the receiving country.

Mexico has entered in such treaties with the United States (10% WT), Canada (15%), the United Kingdom (10%), France (15%), Germany (10%), Italy (15%) and Spain (10%), among others. In the case of Canada and France, the most favored nation clause' may apply so the withholding tax would be of 10%.

In the absence of a treaty, the withholding tax is 30% in the case of licenses on patents and trademarks.

7. Infringement

Due statutory provision, a recorded licensee is entitled to file legal actions against trademark or patent infringers, unless the recorded license explicitly stipulates otherwise.

Actions that the licensee may file include administrative infringement action with the MPTO; petition the MPTO for preliminary measures (similar to a preliminary injunction) to stop infringing activities; file civil actions for damages at the civil courts; and file criminal charges at the Attorney General's Office.

It is questionable if the recorded licensee may file a cancellation action against third parties registrations that may infringe the licensor's registered trademark. Our opinion is that the licensee may not file such cancellation action, although there have been cases where the administrative courts ruled that the authorization provided in the law include the filing of said cancellation actions.

Feel free to contact us if you need more specific information.

Sincerely,

Jaime Delgado

Arturo D. Reyes