St. Mary's Law Journal

Volume 22 | Number 3 Article 8

1-1-1991

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Mark O'C. O'Brien

Carlos R.V. Muggenburg

SALINASTROIKA: RECENT DEVELOPMENTS IN TECHNOLOGY TRANSFER LAW IN MEXICO

MARK O'C. O'BRIEN*
CARLOS MÜGGENBURG R.V.**

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* Locke Purnell Rain Harrell (A Professional Corporation), Dallas, Texas; A.B., *cum laude*, Georgetown University; J.D., Southern Methodist University.

** Creel, Garcia-Cuellar & Müggenburg, Mexico City, Mexico, Escuela Libre de Derecho (Titulo de Abogado), Universidad Panamericana (Especialidad).

The authors thank Joyce G. Mazero and John B. McKnight of the law firm of Locke Purnell Rain Harrell (A Professional Corporation), Dallas, Texas, for their assistance in the preparation of this article.

I. INTRODUCTION

Mexico is reopening for business. In response to the perceived failure of prior economic policy with respect to foreign investment in and technology transfer to Mexico, the government has enacted significant and far-reaching regulatory and legal reforms in the areas of technology transfer, direct foreign investment, and intellectual property. These reforms, initiated in the early months of the administration of Harvard-educated economist President Carlos Salinas de Gortari, herald a new era of increased receptiveness to foreign involvement in the Mexican economy.

With respect to the transfer of technology to Mexico, the January, 1990 Regulations (1990 Regulations)[1] enacted pursuant to the nation's 1982 technology transfer law (Technology Transfer Law)[2] have liberalized the procedures in Mexico for transferring and licensing technology, intellectual property, and technical and advisory services from abroad. The 1990 Regulations have simplified the procedures for the government registration required by the Technology Transfer Law for all technology transfer agreements, and provide additional protection to transferors. Certain technology transfer agreements are exempted altogether from the registration requirement. Perhaps most importantly, the 1990 Regulations exempt the parties to an agreement from the broadly enumerated grounds for denial of registration contained in the Technology Transfer Law, provided that the agreement will benefit Mexico in any of a number of ways. In addition, these regulations specifically recognize franchise agreements for the first time.

Part II of this article deals with Mexico's historical predisposition against foreign involvement in its economic affairs. In particular, it

1. Reglamento de la Ley sobre el Control y Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas, D.O., Jan. 9, 1990 [hereinafter referred to as the 1990 Regulations].

2. Ley sobre el Control y Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas, D.O., Jan. 11, 1982 [hereinafter referred to as the Technology Transfer Law].

summarizes the trilogy of restrictive legislation enacted during the 1970's in the areas of technology transfer, direct foreign investment, and intellectual property. Part III discusses the Technology Transfer Law and its mechanisms and restrictions for the approval and registration required of technology transfer agreements.

Part IV of this article focuses upon selected major aspects of the 1990 Regulations to the Technology Transfer Law (including their application to franchising) that have liberalized the procedures and standards for transfering technology to Mexico. Part IV also summarizes the recently enacted and proposed liberalizing reforms in Mexico's foreign investment and intellectual property laws. Part V deals with practical technology transfer considerations, including negotiation and preparation of the technology transfer agreement, submission thereof for registration, and the consequences of failure to register and/or denial of registration. Finally, Part VI sets forth conclusions.

II. HISTORICAL BACKGROUND

The significance of the recent liberalization of Mexico's laws with respect to technology flow and direct investment from abroad, including the liberalization of the Technology Transfer Law, is best understood against the backdrop of a national predisposition against foreign involvement in the Mexican economy.[3] The passage of the 1917 Constitution, following the Mexican Revolution of 1910, imposed the first set of restrictions on foreign investment.[4] The 1917 Constitution placed ownership of land, waters, and subsurface minerals with the government, and banned foreign acquisition of land in areas located within one hundred kilometers of the borders and fifty kilometers of Mexican beaches.[5]

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3. *See* Einstein, *Promising Developments in Technology Transfer and Intellectual Property Protections in Mexico*, 6 NEWSL. OF THE INT'L L. SEC. (STATE BAR OF TEXAS) No. 3 at 10 (April 1990) (Mexican legal framework regarding technology and foreign investment constricted economic partnership between United States and Mexico); *accord* Murphy, *The Echeverrían Wall: Two Perspectives on Foreign Investment and Licensing in Mexico*, 17 TEX. INT'L L.J. 135, 142 (1982) (Mexican trade laws important factor limiting foreign investment).

4. Constitución Politica de Los Estados Unidos Mexicanos, D.O., Feb. 1, 1917 [hereinafter referred to as the Mexican Constitution].

5. *Id.* at art. 27. *See generally* H. WRIGHT, FOREIGN ENTERPRISE IN MEXICO 95 (1971) (1917 Constitution initial groundwork for removing foreign control of certain economic activities).

The government gradually expanded these restrictions over the following decades as it assumed a larger role in domestic economic affairs and further restricted foreign involvement therein.[6] During the 1970's, the Echeverría administration (1970-76) promulgated three major pieces of legislation designed to restrict foreign business activities in Mexico in the areas of technology transfer, direct foreign investment, and intellectual property.[7]

A. *Technology Transfer Law* (1972)

During the 1960's, dissatisfaction with Mexico's technological development was widely expressed.[8] Because the import substitution phase of Mexico's industrial development appeared to be nearing an end, the government believed that continued industrial development would require successful competition in the world market for exported manufactured goods.[9] In addition, Mexico's increasing trade deficit in the late 1960's reinforced the country's need to develop an export market and to decrease the amount of foreign exchange expended each year to import technology.[10]

The Mexican government believed that past methods of technology acquisition had not served the nation well.[11] Terms of technology transfer agreements frequently were unfavorable to the Mexican transferee, who was often in an unequal bargaining position relative to

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6. *See* H. WRIGHT, *supra* note 5 at 154 (unrestricted foreign investment no longer viewed with benign eye). Increasingly, industrial sectors such as mining, petroleum, utilities, transportation, and media were subject to nationalization or "Mexicanization," a policy under which "new foreign investors should associate with Mexican capitalists and should ideally take a minority position in new undertakings." *Id.* These nationalistic tendencies were in part due to Mexican memories of territorial loss in the mid-19th century, perceived economic exploitation during the age of "Robber Baron" capitalism, and suspicion of the "Yanqui" intentions of the U.S. "Giant of the North." Einstein, *supra* note 3 at 10.

7. *See* Einstein, *supra* note 3 at 11.

8. For a discussion of the events and perceptions that led to adoption of the 1972 Technology Transfer Law, see generally, A. Hyde & G. Ramírez de la Corte, *Regulation of the Transfer of Technology To Mexico*, 1 DOING BUSINESS IN MEXICO § 30.02 (1983).

9. *Id.* § 30.02 at 30-4.

10. *See id.*

11. *Id.*; *see also* Einstein, *supra* note 3, at 11. Mexico's technology, intellectual property and foreign investment laws passed in the 1970's during the Echeverría administration "became a powerful disincentive for international business with Mexico." *Id.* The purpose of these laws was to control the business activities of foreign companies in a manner that would benefit the Mexican economy. *See id.* However, the actual effect of the laws was to discourage foreign investment and technology transfer. *Id.*

the foreign transferor.[12] In the case of a foreign parent company, royalties were set at high levels to reduce earnings to the Mexican subsidiary and thereby transfer profits abroad on a pre-tax basis.[13] In addition, transferee restrictions such as production and export limitations, as well as exclusivity provisions (for example, permitting the transferee to sell only in designated areas), proliferated.[14]

In response to these perceived deficiencies, the Echeverría administration adopted the Law on the Registration of the Transfer of Technology and the Use and Exploitation of Patents and Trademarks of 1972[15] (the forerunner to the current Technology Transfer Law). This legislation had three goals: to strengthen the negotiating position of Mexican transferees, to prevent abuses by foreign technology transferors, and to contribute to the government's developmental goals for the economy.[16] The legislation implemented these goals by requiring government approval and registration of virtually all sales and licenses of technology, as discussed more fully in Section III below.[17]

B. *Foreign Investment Law (1973) and Intellectual Property Law (1976)*

On the heels of the enactment of the 1972 technology transfer legislation, the Mexican government further restricted foreign involvement in its economic affairs with the 1973 Law to Promote Mexican Investment and Regulate Foreign Investment (Foreign Investment Law).[18] Among other things, the Foreign Investment Law mandated majority Mexican participation (at least fifty-one percent) in all new

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12. *See* A. Hyde & G. Ramírez de la Corte, *supra* note 8, § 30.02, at 30-4; *see also* Gonzalez & Mazero, *Franchising in Mexico: Breaking with Tradition*, 7 FRANCHISE L.J. No. 1 at 3 (Summer 1987). For purposes of convenience and uniformity, the foreign supplier (or seller, licensor, or franchisor) of technology shall be referred to herein as the "transferor" and the Mexican aquirer (or purchaser, licensee, or franchisee) thereof shall be referred to as the "transferee."

13. Gonzalez & Mazero, *supra* note 12, at 3.

14. A. Hyde & G. Ramírez de la Corte, *supra* note 8, § 30.02, at 30-5.

15. Ley Sobre el Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas, D.O., Dec. 30, 1972.

16. *See* A. Hyde & G. Ramírez de la Corte, *supra* note 8, § 30.02, at 30-35. The developmental goals of the economy included creation of employment, export expansion, geographic decentralization of industry, and domestic research and development. *See id.*

17. *See infra* notes 28-43 and accompanying text.

18. *See* Ley para Promover la Inversión Mexicana y Regular las Inversiones Extranjeras, D.O., Mar. 9, 1973 [hereinafter referred to as the Foreign Investment Law].

business activities.[19] The legislation also reasserted a ban on foreign participation in economic activities reserved for the government, such as oil and gas exploration and production, utilities, and railroads.[20] In addition, the Foreign Investment Law reserved certain other activities exclusively for Mexican investors, such as radio and television broadcasting, surface transportation, domestic air and maritime transportation, forestry, and gas distribution.[21] Certain other activities were restricted to allow levels of foreign ownership only below forty-nine percent.[22] The law also restricted expansion of majority foreign-owned businesses by requiring government approval for such businesses to manufacture new product lines, open new facilities, or enter into new economic activities.[23]

In addition to the 1972 technology transfer legislation and the Foreign Investment Law, the increasingly nationalistic Mexican congress in 1976 adopted the Law of Inventions and Trademarks (Intellectual Property Law).[24] Among other radical departures from traditional intellectual property protections, the law dramatically reduced the term of patents to 10 years, and abolished patents for chemical and pharmaceutical processes, alloys, nuclear energy, and anti-pollution equipment.[25] The theoretical underpinnings of the Intellectual Property Law included the notion that proprietary rights to ideas or concepts were illegitimate or overreaching (particularly on the part of the

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19. *Id.* at art. 5.; *see also* Murphy, *supra* note 3, at 137 (under 1973 investment law, foreign shareholdings could not exceed 49%).

20. Foreign Investment Law, *supra* note 18, at art. 4; *see also* Murphy, *supra* note 3, at 137. The list of business activities exclusively reserved to Mexico under the 1973 investment law includes: (i) basic petrochemicals; (ii) hydrocarbons; (iii) certain types of mining; (iv) nuclear energy; (v) radioactive minerals; (vi) railroads; (vii) electricity; and (viii) telegraph and radiotelegraph communications. *Id.*

21. Foreign Investment Law, *supra* note 18 at art. 4; *see also* Murphy, *supra* note 3, at 137 (second list of activities limited to Mexican individuals or companies that do not allow foreign shareholders).

22. Foreign Investment Law, *supra* note 18, at art. 5. These include special concessions for the exploitation of mining reserves, secondary petrochemicals, and manufacture of automotive parts. *See id.*

23. *Id.* at art. 12, ¶¶ III-IV; *see also* Lacey, *Protection of Foreigners' Rights in Mexico*, 13 INT'L LAW. 83, 90 n.38 (1979). The Mexican Foreign Investment Commission, during the first three years of the 1973 Foreign Investment Law, allowed only 10 foreign companies to own more than 49% of a Mexican company. *Id.* Furthermore, most of the Commission's allowances were given on the condition that those foreign investors implement a plan to "Mexicanize" their businesses in the future. *See id.*

24. Einstein, *supra* note 3, at 11.

25. *Id.* at art. 10.

developed nations that created a preponderance of such technology).[26] These three pieces of legislation taken together created substantial disincentives for international business with, and foreign investment in and technology transfers to, Mexico.[27]

III. TECHNOLOGY TRANSFER LAW (1982)

As noted in Section I and more fully discussed in Section IV(A) below, the 1990 Regulations have liberalized significantly the procedures and standards under the Technology Transfer Law for transferring and licensing technology from abroad.[28] The Technology Transfer Law as enacted in 1982, however, remains unchanged, and registration of most technology transfer agreements is still required.[29] This Section will set forth more fully the provisions of the Technology Transfer Law, its procedures for the approval and registration of technology transfer agreements, and its traditional broad grounds for denial of registration.

A. *Agreements Required to be Registered*

The Technology Transfer Law requires that agreements relating to the transfer or license of various forms of technology be submitted to the National Registry of the Transfer of Technology (Registry) for registration and approval by the Ministry of Commerce and Industrial Development (Ministry).[30] The law casts a wide net by requiring registration of all agreements, contracts, and other acts that are contained in documents to be effective in Mexico in connection with any of the following:

> trademark licenses, licenses of patents of inventions or of improvements and of certificates of inventions; licenses of industrial models or draw-

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26. *See* Einstein, *supra* note 3, at 11. Einstein reports that one common view held that, by disallowing patents, Mexico could obtain the technology free (upon publication in a nation that did grant patents for that subject matter). In addition, a common third world refrain at the time was "technology is the heritage of all mankind." *Id.*

27. *Id.*

28. *See supra* notes 1-2 and accompanying text; *see also infra* notes 55-73 and accompanying text.

29. *See generally* Technology Transfer Law, *supra* note 2.

30. *Id.* at art. 2. The Registry is under the supervision of the Technological Development Bureau (Dirección General de Desarrollo Tecnológico), which also handles the registration of industrial property rights (e.g., patents and trademarks). The Registry and the Technological Development Bureau are both part of the Ministry of Commerce and Industrial Development (Secretaria de Comercio y Fomento Industrial).

> ings; trademark assignments; patent assignments; trade name licenses; transfers of know-how through plans, diagrams, models, instruction manuals, formulae, specifications, and training of personnel; technical assistance; supply of basic or detailed engineering; company operation or management services; advisory, consulting, or supervisory services rendered by foreign individuals or corporations (or their subsidiaries); copyright licenses having industrial application; computer programs; and maquiladora agreements relating to the foregoing.[31]

The law excludes several types of technology transfer agreements, however, from the registration requirements, including agreements for bringing foreign technicians into Mexico for the installation of factories or machinery; technical instruction provided by educational or training centers, or by companies to their own employees; and industrial use of copyrights relating to publishing, motion pictures, radio, or television; and agreements between governments.[32] Presumably, the government believed that the foregoing excluded technology transfer agreements were not subject to perceived abuses by foreign transferors, or that the benefits of such agreements outweighed the need to have government oversight of these types of arrangements.

B. *The Registration Process*

It is important to note that the "registration" concept contained in the Technology Transfer Law does not contemplate mere recordation of a technology transfer agreement. Rather, the registration process involves a substantive merit review and approval of the agreement terms.[33] As more fully discussed in Section III(C) below, the law sets

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31. *Id.* at arts. 2, 4.

32. *Id.* at art. 3.

33. *See id.* at arts. 9-10; *see also* A. Hyde & G. Ramírez de la Corte, *supra* note 8, § 30.03, at 30-8. Article 9 of the 1982 Technology Transfer Law provides that:

> The Ministry of Patrimony and Industrial Promotion shall have the following faculties in connection with this law:
>
> I. To resolve, pursuant to the provisions of this Law, on the conditions for acceptance or refusal of the recordation of the acts, agreements or contracts submitted to it.
>
> II. To establish the policies pursuant to which the transfer of technology in Mexico must be regulated or accepted in accordance with the following guidelines:
>
> a) Adequate selection of the technology.
>
> b) The maximum payments allowed in accordance with the lower price of the alternatives available elsewhere, according to the interests of Mexico.
>
> c) Increasing and diversifying the production in priority goods and activities.
>
> d) Promoting the process of assimilation and adaptation of the technology acquired.
>
> e) Compensating payments through exports and/or the substitutuon of imports.

forth seventeen circumstances warranting denial of registration.[34]

The Technology Transfer Law requires that technology transfer agreements be submitted to the Registry for registration within sixty working days following execution.[35] Amendments must be submitted within a similar sixty day period.[36]

The Ministry must be advised of the termination (other than by expiration) of registered agreements within sixty working days of such termination.[37] The Technology Transfer Law provides that the Ministry shall make a determination as to registrability within ninety working days of filing.[38] Technology transfer agreements will be registered unless the Ministry determines during this time period that the registration requirements are not met.[39]

Upon a finding of non-registrability, the parties may file a petition for reconsideration during the fifteen working day period after the effective date of the Ministry's official determination.[40] The petition must be accompanied by an offer of supporting evidence, and such

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f) Contractually directing the technological research and development.

g) Promoting the acquisition of innovating technology.

h) Promoting the progressive relocation of the technological demand toward internal sources and promoting the exportation of Mexican technology.

III. To establish the adequate means for properly evaluating the acts, agreements or contracts submitted to it, with authority to require the information it may deem necessary;

IV. To promote the national technological development through industrial policies.

V. To cancel the recordation of the acts, agreements or contracts referred to in Article Second hereof, when they are amended or altered in violation of the provisions of this Law;

VI. To check at any time compliance with the provisions of the Law;

VII. To require and check any other information it may deem advisable to exercise the powers conferred upon it by this Law; and

VIII. All other faculties granted by Law.

Technology Transfer Law, *supra* note 2, at art. 9.

34. *See* Technology Transfer Law, *supra* note 2, at arts. 15-16; *see also infra* notes 44-50 and accompanying text (listing of the grounds for denial).

35. Technology Transfer Law, *supra* note 2, at art. 10. The documents are actually submitted to the Ministry of the Patrimony and Industrial Promotion. *Id.* The Ministry then records those documents in the Registry. *Id.* For a discussion of the technology transfer agreement registration process prior to adoption of the 1990 Regulations, see generally A. Hyde & G. Ramírez de la Corte, *supra* note 8, at § 30.04.

36. Technology Transfer Law, *supra* note 2, at art. 10.

37. *Id.*

38. *Id.* at art. 12.

39. *See id.* Article 12 of the Technology Transfer Law provides that: "At the end of this [90 day] period without a resolution being issued, the act, agreement or contract involved must be recorded in the National Technology Transfer Registry." *Id.*

40. *Id.* at art. 13.

evidence must be submitted within the following thirty working day period.[41] After supporting evidence is presented, the Ministry has sixty working days in which to consider the petition for reconsideration, and thereafter the agreement will be deemed registered in the absence of a negative response from the Ministry.[42] An unfavorable ruling may be appealed to a Mexican district court, whose decision is subject to final review by a Mexican circuit court or the Mexican Supreme Court.[43]

C. *Traditional Grounds for Denial of Registration*

Articles 15 and 16 of the Technology Transfer Law set forth the seventeen circumstances that, subject to the exemptions now provided for in the 1990 Regulations, require the Ministry to deny registration of a technology transfer agreement.[44] The law provides, however, that the Ministry may in its discretion grant exceptions and permit registration even if one of the seventeen forbidden provisions are present in the agreement.[45] Such exceptions may be granted, taking into account the benefits to Mexico to be derived from the agreement.[46]

Although the parties may now claim exemption from the seventeen grounds mandating registration denial if they meet the requirements for such exemption pursuant to article 53 of the 1990 Regulations,[47] the grounds for denial continue as part of the law and merit review. Generally, articles 15 and 16 of the Technology Transfer Law provide that any agreement for the transfer of technology will be denied registration if the agreement includes provisions: (a) permitting the foreign transferor to regulate or to intervene in the administration of the transferee; (b) providing that the transferee must assign to the transferor any new technology obtained; (c) limiting the transferee's research and development; (d) requiring the transferee to acquire

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41. *Id.*

42. *Id.*

43. A. Hyde & G. Ramírez de la Corte, *supra* note 8, § 30.04, at 30-11.

44. *See* Technology Transfer Law, *supra* note 2, at arts. 15-16; *see also* 1990 Regulations, *supra* note 1, at art. 53 (discussing situations where articles 15 and 16 of Technology Transfer Law will not apply).

45. *See* Technology Transfer Law, *supra* note 2, at art. 17.

46. *Id.* at art. 17. This exception, which allows authorization, forms the basis for the centerpiece of the 1990 Regulations (i.e., broad exemptions from the traditional grounds for registration denial if a benefit to Mexico may be shown). *See infra* notes 55-62 and accompanying text.

47. *See infra* notes 55-62 and accompanying text.

equipment or materials from specific suppliers (assuming other sources exist); (e) subjecting the transferee to production, sale, or resale price restrictions; (f) requiring the transferee to maintain confidentiality of the technology beyond termination of the agreement; (g) setting a royalty rate payable by the transferee disproportionate to the value of the acquired technology; or (h) establishing an initial term for the agreement in excess of ten years.[48]

Other prohibited agreement provisions or omissions under the Technology Transfer Law include those prohibiting the use of complementary technology, requiring sales to a single designated customer, mandating that the transferee employ transferor-designated permanent personnel, failing to establish transferor liability for infringement, failing to warrant quality or results of the technology's application, transferring technology already available in Mexico, and purporting to submit litigation to foreign courts.[49] Article 7 requires that the technology transfer agreement be governed by the laws of Mexico or by agreements or treaties to which Mexico is a party.[50]

The breadth of the foregoing grounds for denial of registration of agreements served to create a chilling effect on foreign technology transfers to Mexico. Although the original 1982 regulations to the Technology Transfer Law provided several exemptions to the grounds for denial of registration, the grounds for denial nevertheless resulted in the rejection of a significant number of agreements submitted, thus requiring renegotiation of the agreements (usually to the detriment of the foreign transferor) as a precondition to registration and consequent enforceability.[51]

IV. SALINASTROIKA: 1989-90

Recently enacted regulatory reforms to the Technology Transfer Law and the Foreign Investment Law, and proposed legal reforms to the intellectual property laws, evidence a new Mexican receptiveness to foreign investment and technology transfer from abroad.[52] This "Salinastroika" was initiated in the early months of the Salinas ad-

48. Technology Transfer Law, *supra* note 2, at arts. 15-16.

49. *Id. See generally* A. Hyde & G. Ramírez de la Corte, *supra* note 8, at § 30.05 (discussion of each ground for registration denial).

50. Technology Transfer Law, *supra* note 2, at art. 7.

51. McKnight & Müggenburg, *Mexico Redoubles Efforts to Attract Foreign Investors*, 9 FRANCHISE L.J. 3, 3 (Spring 1990).

52. *See id.* (1990 Regulations intended to return full responsibility to contracting parties);

ministration as the administration moved quickly to restructure and diminish Mexico's constraints in these areas.[53] The changes largely resulted from the perceived failure of restrictive economic policy with respect to foreign business involvement and, relatedly, the expected domestic economic benefit to be derived from greater levels of technology flow and direct investment from abroad.[54]

A. *New Technology Transfer Law Regulations*

On January 9, 1990, the Mexican government promulgated the 1990 Regulations to the Technology Transfer Law.[55] In announcing the 1990 Regulations, the Ministry indicated that it intended to return contracting power to the parties to technology transfer agreements, implement a system for franchise agreement registration, provide added protection for industrial secrets, and reduce government discre-

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see also Einstein, *supra* note 3, at 14 (purpose of new foreign investment law to stimulate foreign investment "through greater flexibility and transparency" of rules).

53. *See, e.g.*, 1990 Regulations, *supra* note 1, at 1; Regulations of the Law to Promote Mexican Investment and Regulate Foreign Investment, D.O. May 16, 1989 [hereinafter referred to as the 1989 Regulations].

54. Einstein, *supra* note 3 at 13-14. In particular, the Salinas administration had noted the phenomenal growth in Mexico's international production sharing sector, or "maquiladora" program. *Id.* at 13. The administration appeared sensitive to the negative impact of excessive regulation, and shared the perception that the growth of maquiladoras was due in large part to the fact that the maquiladora program waived the Foreign Investment Law's requirement of minority foreign participation in new businesses. *Id.* The maquiladora program is an in-bond production program. *See id.* Mexican regulations permit duty exempt temporary importation of components for assembly or processing, and waive the Foreign Investment Law minority foreign participation requirement for such production facilities. *See* Decree for the Development and Operation of the Maquiladora Export Industry, D.O., Dec. 22, 1989; *see also* General Resolution No. 1 of the National Foreign Investment Commission, D.O., Nov. 5, 1975 *superseded by* General Resolution that Systematizes General Resolutions Promulgated by the National Foreign Investment Commission, Sec. 5, D.O., Nov. 24, 1987. Einstein notes that "the complementary comparative advantages of the United States' technology, capital and market combined with Mexico's abundant, low-cost labor and geographic proximity" combined under the maquiladora program to create a boom in that sector. *See* Einstien, *supra* note 3, at 13. It grew at a rate exceeding 20% per year after 1982 and has become the second most important source of Mexico's foreign exchange. *Id.*; *see also* Rose, *Transboundary Harm: Hazardous Waste Management Problems and Mexico's Maquiladoras*, 23 INT'L LAW. 223, 224 (1989) (Maquiladoras are second highest source of revenue for Mexico, behind petroleum); Note, *An Investor's Introduction to Mexico's Maquiladora Program*, 22 TEX. INT'L L.J. 109, 110 (1987) (Maquiladoras generated $1.5 billion in income for 1986). This growth was aided by the devaluation of the peso and U.S. tariff references that permit a deduction of U.S.-produced value from the assessment of duties upon the importation of a foreign-assembled product. *See* Tariff Schedules of the United States §§ 802.60, 9802.80.

55. *See* 1990 Regulations, *supra* note 1.

tion in the registration process.[56]

1. Exemptions from Grounds for Registration Denial

Perhaps the most significant liberalization under the 1990 Regulations is contained in article 53. Article 53 provides for a blanket exemption from the broad traditional grounds for denial of technology transfer agreement registration contained in articles 15 and 16 of the Technology Transfer Law.[57] The exemption will obtain if no other exemption is available under the law or the regulations and the execution of the agreement will benefit Mexico in any of the following ways:

(a) creation of permanent jobs;
(b) improvement of the technical qualifications of human resources;
(c) access to new foreign markets;
(d) manufacture of new products in Mexico, especially if they substitute for imports;
(e) improvement in Mexico's balance of payments;
(f) decrease in unit production costs, measured in constant pesos;
(g) development of domestic suppliers;
(h) use of technologies that do not contribute to ecological deterioration; or
(i) initiation of further development of technological research and development activities in production units or in related domestic research centers.[58]

Although it would seem that virtually any technology transfer agreement could facilitate at least one of the foregoing benefits and thereby trigger the exemption from traditional registration denial grounds, fulfillment of the relevant condition(s) is subject to the Ministry's review.[59] Article 53 of the 1990 Regulations provides that to

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56. *See* McKnight & Müggenburg, *supra* note 51, at 3.

57. *See* 1990 Regulations, *supra* note 1, at art. 53. For a discussion of the traditional 17 grounds for denial of registration of a technology transfer agreement, see *supra* notes 44-49 and accompanying text. Article 53 of the 1990 Regulations was adopted pursuant to article 17 of the Technology Transfer Law, which provides that the Ministry may dispense with compliance with articles 15 and 16 when benefits to Mexico result from doing so. *See* Technology Transfer Law, *supra* note 2, at art. 17. However, article 53 does not exempt the requirement of article 7 of the Technology Transfer Law that the agreement be governed by Mexican law or agreements or treaties to which Mexico is a party. *See* 1990 Regulations, *supra* note 1, at art. 53.

58. 1990 Regulations, *supra* note 1, at art. 53(I),(II).

59. *See id.* at art. 55. Article 55 states that:

> In order to check the compliance with [Article 53]. . ., the Ministry may request, during the established period of time, a proof from the purchaser or the supplier, as the case may

obtain the exemption, the transferee must declare under oath: (a) that it is his desire to enter into the technology transfer agreement on the terms proposed; (b) that its execution will result in at least one of the benefits listed above; and (c) that realization of such benefit(s) shall be demonstrated by the transferee during the three year period commencing upon registration of the agreement.[60] During such three year period, the Ministry may request evidence concerning progress toward achievement of the promised benefits.[61] Following what is currently perceived to be a cursory review of the transferee's declaration by the Ministry, the technology transfer agreement is registered.

Any amendment to a technology transfer agreement sought to be registered under the article 53 blanket exemption similarly must be approved for registration.[62] With respect to such an amendment, it is unclear if a new benefit to Mexico must be shown to obtain the registration, and if a new three-year period is opened during which such new benefit must be demonstrated. The authors believe that the benefit shown with respect to the primary agreement should apply to permit registration of the amendment.

2. Other Liberalizing Provisions

Although it is difficult to imagine a situation in which the foregoing exemption to the grounds for registration denial would be unavailable, the 1990 Regulations also liberalize in a number of significant respects the rules directly relating to the traditional grounds for registration denial. These liberalizing provisions may be of particular significance if the parties elect to forego claiming the article 53 exemption (and the consequent uncertainty of the requirement of proof during the following three-year period) and submit to the normal review and registration process. The changes provide greater contracting authority to the parties and increase protections afforded the foreign transferor's proprietary technology.

The Technology Transfer Law continues to prohibit excessive roy-

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be, of the progress made in the fulfillment of the statements made in regard to the benefits to the country to be derived from the agreement.

Id.

60. *Id.* at art. 53(III).

61. *Id.* at art. 55.

62. Technology Transfer Law, *supra* note 2, at art. 10.

alties.[63] The 1990 Regulations, however, unlike their predecessor regulations in 1982 make no reference to royalty limitations. Moreover, in announcing the 1990 Regulations the Ministry made it clear that this omission was intended to liberalize fully the former restrictions imposed upon royalties.[64]

In the area of confidentiality, the Technology Transfer Law and the prior regulations generally required registration denial if the agreement required the transferee to maintain confidentiality of the licensed technology beyond the term of the agreement, except in limited circumstances.[65] Although the Technology Transfer Law continues to prohibit registration of agreements having an original term exceeding ten years,[66] the 1990 Regulations liberalize the confidentiality restrictions by allowing a transferor to require the transferee to maintain confidentiality of the licensed technology beyond the original term. Specifically, the new regulations provide that: (a) if the transferor adds substantial improvements to the licensed technology; (b) that have the effect of increasing the production, quality, and competitive advantage of the transferee; and (c) such improvements are included in a registered amending agreement; (d) then the parties may freely agree upon the confidentiality provisions, so long as they do not

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63. *See id.* at art. 16 (II). Article 16 provides that: "The acts, agreements or contracts referred to in Article Second will not be recorded either in [sic] the following cases:

. . .

II. When the consideration payable is out of proportion with the acquired technology or constitutes an unjustified or excessive burden for the national economy or for the acquiring company." *Id.*

64. McKnight & Müggenburg, *supra* note 51, at 32.

65. Technology Transfer Law, *supra* note 2, at art. 15(XI); *see also* Reglamento de la Ley sobre el Control y Registro de la Transferencia de Tecnología y el Uso y Explotación de Patentes y Marcas, D.O., Nov. 25, 1982 art. 56 [hereinafter referred to as the 1982 Regulations] (providing situations where agreements will be exempt from article 15 (XI) of Technology Transfer Law). Article 56 of the 1982 Regulations states that:

> The following cases shall be exempt from the provisions of Section XI of Article 15 of the Law:
>
> I.—If the technology supplied is protected by industrial property rights that have not expired upon termination of the Agreement;
>
> II.—When it is demonstrated to the Ministry that it is appropriate for the country to maintain in confidence the technical information supplied, taking into account the advanced nature and high degree of dynamism of the technology, the limited existing supply of the same and the social benefit that will result from its acquisition; and
>
> III.—If the Acquirer agrees to treat in confidence technical information that does not fall within the activities that constitute its corporate purposes.

1982 Regulations at art. 56.

66. Technology Transfer Law, *supra* note 2, at art. 16(III).

continue beyond ten years from the date of the amending agreement.[67]

The Technology Transfer Law also provides for denial of registration if the technology agreement requires the transferee to obtain supplies from a specific source (e.g., the transferor) to the exclusion of all others.[68] By contrast, the 1990 Regulations permit the designation of a specific source of supply, provided: (a) the supplies are provided at prevailing international prices and terms; (b) with respect to trademark agreements, the supply source designation is necessary to maintain the prestige and image of the products; or (c) a risk of disclosure of technical information exists if the supplies are obtained elsewhere.[69]

3. Agreements No Longer Requiring Registration

In addition to the foregoing exemptions and liberalizing provisions, the 1990 Regulations further invite foreign technology transfer by ceasing to require registration of certain types of agreements under the Technology Transfer Law. These include agreements for advisory, consulting, or supervisory services rendered by foreigners with immigrant status, and agreements for such services when the services are rendered abroad by foreigners hired by Mexican individuals or corporations.[70] Similarly, agreements for provision of advisory, consulting, or supervisory services for less than a six-month duration within a one year period need not be registered.[71] Agreements for advisory, consulting, or supervisory services rendered by Mexican companies having up to forty-nine percent foreign ownership no longer require registration (twenty-five percent was the former threshold),[72] nor do agreements involving the transfer of computer pro-

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67. 1990 Regulations, *supra* note 1, at art. 46(III).

68. Technology Transfer Law, *supra* note 2, at art. 15(IV).

69. 1990 Regulations, *supra* note 1, at art. 38. The remaining liberalizing provisions permit restrictions on transferee research and development (with respect to franchise agreements), transferee export restrictions, restrictions on the use of complementary technologies, and greater control by the transferor over the transferee's operations. *Id.* at arts. 34, 39-42.

70. *Id.* at art. 17; *cf.* Technology Transfer Law, *supra* note 2, at art 2(k). Article 2(k) of the Technology Transfer Law requires that agreements regarding advisory, consultory or supervisory services performed by foreign individuals be registered in the National Technology Transfer Registry. *Id.* The 1990 Regulations loosen this restriction by providing the exceptions discussed in the text above. *See* 1990 Regulations, *supra* note 1, at art. 17.

71. 1990 Regulations, *supra* note 1 at art. 19. Such agreements shall, however, be submitted to the Registry for information, not registration, purposes. *Id.*

72. *Id.* at art. 18. The threshold of foreign ownership allowed under the 1982 Technol-

grams (unless the transferee is authorized to produce, distribute, or sell computer programs).[73]

4. Franchise Agreement Defined

The 1990 Regulations specifically recognize franchising for the first time under Mexican law.[74] The 1990 Regulations define a franchise agreement as one in which:

> the [franchisor], besides granting the [franchisee] the use or authorization to exploit trademarks, service marks and tradenames, transfers technical know-how or renders technical assistance in accordance with Paragraphs a), f), g) and h) of Article 2 of the [Technology Transfer] Law for the purpose of producing or selling goods or rendering services in a uniform manner and with the same operating, marketing and administrative methods as the [franchisor], independently of any other qualifying definition mentioned in said article.[75]

The recognition of franchising by definition implies its new status as an acceptable method of distribution, and the significant role that the government expects franchising to play in its new foreign investment strategy.[76]

5. Registration of Model Franchise Agreements

The 1990 Regulations did not stop at merely defining franchise agreements. Because it is common for a franchisor to license more than one franchisee, the increasingly receptive Mexican government provided in the 1990 Regulations for registration of a "model" franchise agreement to facilitate this type of structure.[77] After a

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ogy Transfer Law was 25%. *See* 1982 Regulations, *supra* note 65, at art. 16 (Mexican corporation deemed foreign subsidiary if 25% owned by foreign shareholders).

73. 1990 Regulations, *supra* note 1, at art. 21.

74. *Id.* at art. 23. For a discussion of the impact of the 1990 Regulations on franchising, see McKnight & Müggenburg, *supra* note 51, at 5. In the past, even the use of the term "franchise" in an agreement filed for registration was subject to criticism by the Ministry. *Id.*

> Such criticism may have resulted not only from the low priority assigned by the Mexican government to attracting from abroad trademark licenses and management and trading advisory services, but from the fact that the traditional meaning of the Spanish term for "franchise" has no relation to the English meaning for the term.

Id. "Franquicia" means exemption in order not to pay duties or taxes when importing or exporting goods or when rendering a public service. *See* DICCIONARIO DE LA LENGUA ESPAÑOLA (Real Academia Española, Madrid, 1970 (reprint 1981)), at 634.

75. 1990 Regulations, *supra* note 1, at art. 23.

76. *See* McKnight & Müggenburg, *supra* note 51, at 24.

77. *See* 1990 Regulations, *supra* note 1, at art. 24. These "model" franchise agreements

model franchise agreement has been registered under the Transfer Technology Law, the foreign franchisor may enter into any number of franchise agreements, provided that: (a) such agreements identify the file and folio number under which the model agreement (and any amendments) was registered; and (b) the franchisor submits to the Registry executed copies of the actual agreements entered into in each succeeding six-month period.[78] These subsequent filings are merely informational and do not require registration approval by the Ministry.

The 1990 Regulations provide for an identical procedure with respect to the registration of model subfranchise agreements, provided the franchisee (or, in that case, the master franchisee) is authorized to subfranchise.[79] Any modification to the model franchise or subfranchise agreement, and any deviations thereto in the actual executed agreements, must also be submitted for registration approval.[80] Fines

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may take the form of area development agreements or "master" franchise arrangements. Article 24 of the 1990 Regulations allows a franchisor to register the basic format of the franchise agreement when the franchisor deals with multiple franchisees. *See id.* Article 24 goes on to state that: "[t]he format of agreement may only be used as from the date of issuance of its registration evidence." *Id.* Furthermore, any change to the format agreement must also be submitted for registration under the same terms required for the original format agreement registration. *See id.*

78. *Id.* at arts. 24-26. Technical compliance with all filing requirements is crucial to obtaining and maintaining the enforceability of all agreements requiring registration. For example, failure to indicate the file and folio number of the model franchise agreement on a subsequently executed and filed franchise agreement would render the enforceability of such a franchise agreement questionable. Also, the provisions contained in the 1990 Regulations permitting the submission for filing every six months of franchise agreements based upon a registered model franchise agreement could, in certain circumstances, be constitutionally challenged. Pursuant to the Technology Transfer Law, in order for an agreement requiring registration to be enforceable as of the date of its execution, the agreement must be submitted for registration within 60 working days of its execution. Technology Transfer Law, *supra* note 2, at art. 10. Any such agreement that is submitted more than 60 working days after execution will become enforceable only after the date of its submission. *Id.* To the extent that the 1990 Regulations provide a longer period than the Technology Transfer Law within which to submit franchise agreements, such provisions of the 1990 Regulations may be of questionable constitutionality. As a result, it is advisable to submit a franchise agreement based upon a registered model franchise agreement within 60 working days of its execution. The failure to do so could give rise to a challenge as to the enforceability of the franchise agreement between the end of such 60 working day period and the conclusion of the aforementioned six month period.

79. 1990 Regulations, *supra* note 1, at arts. 25, 26.

80. *Id.* at art. 24. It is the opinion of the authors that the model franchise agreement or model subfranchise agreement may permit the franchisor or master franchisee some degree of flexibility to negotiate different terms under different franchise or subfranchise agreements

may be imposed for failure to register executed agreements within the applicable six-month period, or if the terms of such agreements differ from the model.[81]

B. *Liberalization of the Foreign Investment Law and the Proposed "Program" to Amend the Intellectual Property Law*

In addition to the significant liberalizations to the Technology Transfer Law wrought by the 1990 Regulations, the Salinas administration has also effected and proposed significant reforms to the remaining two of the trilogy of restrictive 1970's laws, the Foreign Investment Law and the Intellectual Property Law. These changes are similarly designed to attract foreign investment and technology flows.[82]

The Salinas administration liberalized the Foreign Investment Law, as in the case of the Technology Transfer Law, by way of reforming regulations to the law.[83] These regulations, published May 16, 1989, seek to stimulate increased direct foreign investment through greater flexibility and increased exceptions to the broad foreign investment restrictions contained in the law.[84] Generally, the new regulations provide virtually automatic exemptions to the Foreign Investment Law permitting one-hundred percent (as opposed to the prior forty-

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without the need to submit such agreements for registration approval, so long as the parameters for such flexibility are clearly set forth in the model agreement. For example, a model agreement could provide some flexibility in setting the royalty amount to be payable under each executed agreement, so long as each such royalty amount were within certain maximum and minimum limits.

81. *Id.* at art. 60; *see also* Technology Transfer law, *supra* note 2, at art. 19 (providing level of fines). Article 19 of the Technology Transfer Law provides that if an agreement is not properly recorded in the Registry "a fine will be imposed up to the amount of the agreed operation or up to 10,000 times the minimum daily general wage in the Federal District, depending upon the gravity of the default." Technology Transfer Law, *supra* note 2, at art. 19.

82. *See* Einstein, *supra* note 3, at 14-15. The Salinas administration was very sensitive to the fact that excessive government regulation had a negative impact on the business investment decisions of foreign corporations. *Id.* at 13. The administration recognized the correlation between the maquiladora industry's phenomenal growth and the fact that the 49% ownership requirment under the Foreign Investment Law was waived in lieu of the "in-bond" production program which allows a foreign corporation to post a bond in order to guarantee the export of their maquila-made products. *See id* at 13-14.

83. *See* Reglamento de la Ley para Promover la Inversión Mexicana y Regular las Inversiones Extranjeras, D.O., May 16, 1989 [hereinafter referred to as the 1989 Foreign Investment Regulations].

84. Einstein, *supra* note 3, at 14.

nine percent) foreign investment in most industrial activities.[85]

Under the new regulations to the Foreign Investment Law, certain economic areas of historical importance, however, remain reserved exclusively to the government, such as basic petrochemicals, railroads, and telegraph services.[86] Other areas continue to be reserved exclusively for Mexican private investment. For example, broadcasting, surface transportation, and other "classified" economic activities remain restricted or require special authorization for more than minority foreign investment.[87] Nevertheless, these May 1989 regulations to the Foreign Investment Law represent a giant step forward in that they except most industrial sectors from the traditional forty-nine percent foreign ownership restriction.[88] Moreover, the liberalizing thrust of these regulations was further underscored by streamlined procedures for foreign investment application and registration.[89]

Although at this writing a number of the proposed reforms have yet to be enacted, "Salinastroika" is similarly at work in the area of intellectual property. The Mexican government published on January 15, 1990, the National Program of Modernization of Industry and Foreign Trade (Program).[90] The Program states that the government intends to amend the Intellectual Property Law to offer protection

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85. *Id.*; *see also* Foreign Investment Law, *supra* note 18, at art. 5 (maximum of 49% foreign ownership in Mexican corporation unless specified otherwise).

86. Foreign Investment Law, *supra* note 18, at art. 4.

87. *See id*; *see also id.* at art. 5 (National Commission on Foreign Investment may allow greater percentage of foreign investment).

88. *Id.* at art. 5; 1989 Foreign Investment Regulations, *supra* note 83, at arts. 5-6. Article 5 of the regulations provides that:

> For purposes of the provisions of Section 5 of the [Foreign Investment] Law, foreign investors may participate in *any proportion* in the capital stock of a corporation, in the act of its incorporation for the performance of activities not included in the Classification, and will not require therefore the authorization of the Ministry. . . .

Id. at art. 5. (emphasis added) However, in order to take advantage of article 5 of the 1990 regulations, the corporation must meet the conditions set out in that article. *See id.* Article 6 of the 1989 Regulations further provides that Ministry authorization is not required for:

> foreign investors to acquire, in any proportion, shares of company, whether existing or in the act of its incorporation, *provided* that said company operates in, or is incorporated to perform, activities of in-bond processing (maquila) or other industrial or commercial activities for export, in accordance with the administrative provisions establishing special rules for the operation of such companies.

Id. at art. 6.

89. *See* Resoluciones Generales Nos. 1-2, D.O., June 21, 1989; Resolución General No. 3, D.O., Aug. 9, 1990; Resolución General No. 4, D.O., Sep. 14, 1990.

90. McKnight & Müggenburg, *supra* note 51, at 3 n.8.

"similar to that found in industrialized countries."[91] It is presently contemplated that amending legislation will be introduced in the Mexican Congress' April-June 1991 term, with hoped for implementation in 1991.[92]

The wide-ranging reforms to the Intellectual Property Law proposed in the Program include lengthening of patent terms to twenty years and patentability in the previously restricted areas of chemicals, pharmaceuticals, biotechnology, and alloys.[93] In addition, the Program states that "[i]ndustrial property infractions or crimes, in commerce or manufacture, commonly referred to as piracy, will be energetically combatted."[94] The foregoing proposed changes to the Intellectual Property Law, together with proposed changes to the copyright laws on software protection, and the significant regulatory reforms already enacted in connection with the Technology Transfer Law and the Foreign Investment Law discussed above, herald a new era of increased receptiveness to foreign business involvement in Mexico.

V. TECHNOLOGY TRANSFER: PRACTICAL CONSIDERATIONS

A. *Negotiation and Preparation of the Technology Transfer Agreement*

Prior to enactment of the 1990 Regulations, the Ministry played a much greater role in the procedures relating to the transfer of technology to Mexico from abroad. The Technology Transfer Law, in attempting to further the developmental goals of the Mexican economy and to assist domestic transferees, restricted the contracting power of the parties by prohibiting certain agreement provisions. The Ministry, in interpreting and applying the law and prior regulations, declined to register an agreement containing almost any provision unfavorable to the domestic transferee. This pattern of government intervention significantly affected the negotiations of the parties and the roles of their respective counsels.

The 1990 Regulations, particularly in instances where the article 53

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91. *Id.*

92. *Mexico's New Patent Protection Plan Will Take It Off Special 301 Priority List*, 7 Int'l Trade Rep. (BNA) No. 5 at 147 (January 31, 1990).

93. *See Mexico's New Patent Protection Plan Will Take It Off Special 301 Priority List*, 7 Int'l Trade Rep. (BNA) No. 5 at 147 (January 31, 1990).

94. McKnight & Müggenburg, *supra* note 51, at 24.

blanket exemption from traditional grounds for registration denial is sought, largely return contracting power to the parties to the technology transfer agreement.[95] While there are many important areas of negotiation, this section will highlight four areas in particular that should be addressed carefully when negotiating and drafting the agreement: (a) fee and expense tax consequences; (b) the conversion of Mexican sales volumes or fees into foreign currency for remittance to the transferor; (c) exclusivity provisions; and (d) confidentiality protections.

Proper tax planning in connection with the structure of the transaction and its documentation is necessary to obtain advantageous tax treatment, particularly with respect to the tax treatment of fee and expense payments. Care should be exercised in distinguishing payments relating to the transfer of technology from payments relating to other matters, for different tax rates will apply depending upon the nature of the payment. In the area of royalties, Mexican tax law requires that a fifteen percent tax be withheld by Mexican transferees of technology when making royalty payments to foreign transferors for technical assistance (thirty-five percent with respect to royalty fees for licensed patents and trademarks).[96] Failure by the parties to anticipate these tax concerns will predictably create friction, as will failure to analyze the applicable tax provisions of the foreign transferor's jurisdiction.

Technology transfer agreements often provide, without more, that payments to the transferor will be made in U.S. dollars. The absence of contractual provisions regarding applicable exchange rates and the specific times at which currency conversions should be effected create problems of interpretation and consequent disagreements among the parties. For example, the potential for wide currency fluctuations may make it appropriate to provide that the currency conversion be performed within a set time from the related sales in Mexico, even if the actual payments to the foreign transferor need not be made until a later date. Moreover, mere reference to the "prevailing" rate of exchange, without more, will prove insufficient; such rates may vary from one bank or house of exchange to another. The agreement must designate whether the applicable rate of exchange shall be a "free"

95. *See* 1990 Regulations, *supra* note 1, at art. 53.

96. Ley del Impuesto Sobre la Renta [hereinafter referred to as the Mexican Income Tax Law], D.O., Dec. 28, 1989 at art. 156.

(market) or a "controlled" (government set) rate and, in either case, the agreement must designate the source for the applicable exchange rate.

Territorial designations and accompanying rights of exclusivity can be considered equally as valuable as the technology received. The parties should determine whether the transferee is restricted in any manner from conducting business using the technology in Mexico and whether the transferor is restricted from granting to third parties the right to use the same technology in the transferee's territory.

In the area of confidentiality protections, inclusion by the transferor in the agreement of a covenant not to compete may be desirable. Such a covenant should, however, provide for liquidated damages in the event of breach due to the questionable enforceability of non-compete covenants under Mexican law. Moreover, the authors recommend detailed provisions regarding the transferor's mechanisms for control over the technology sought to be protected. Other areas warranting analysis in the context of negotiating technology transfer agreements include trade name, trademark, and service mark usage (a Mexican search is advisable for the foreign owner of the mark) and dispute resolution, including mechanisms for arbitration (if any) and choice of venue.

B. *Submission of Agreement for Registration*

The following documents (originals or authenticated copies of each, plus two conformed copies) must be submitted to the Ministry by the transferor or the transferee (or their representative)[97] in order to request approval and registration of a technology transfer agreement:

(a) standard form application;[98]
(b) executed copy of the technology transfer agreement (or non-executed copy of a model franchise or model subfranchise agreement);
(c) if the agreement is not in Spanish, a translation of same prepared by an authorized translator;[99]

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97. 1990 Regulations, *supra* note 1, at art. 4.

98. *Id.* at art. 5.

99. *Id.* at art. 3; Código Federal de Procedimientos Civiles, D.O., Feb. 24, 1942 and Mar. 13, 1943, at art. 271; Ley Orgánica de los Tribunales de Justicia del Fuero Común del Distrito Federal, D.O., Jan. 29, 1969, at arts. 167 et seq. The translator's authorization must come from the Supreme Court of the Federal District or the Supreme Court of any of the Mexican states.

(d) a power of attorney evidencing authority of the representative to act on behalf of the applicant;
(e) official receipt evidencing payment of the government fee;[100] and
(f) any other documents that the applicant may submit or the Ministry may request.[101]

With respect to (a) above, the Ministry has recently approved a standard ten page form application largely in multiple choice question format. The application covers general information regarding the parties, characteristics of the agreement, technological status of the transferee, and authority of the person making the filing.

With respect to (d) above, the representative (normally an officer of the applicant or a Mexican attorney) submitting the registration request must evidence the corporate existence of the applicant and his personal authority to act for the applicant in the registration process. This is usually accomplished through a notary public "deed" referencing such corporate existence and the corporate authority of the applicant, pursuant to the applicant's governing documents, to grant power of attorney to the representative. If an officer of the applicant holds the power of attorney and wishes to have a Mexican attorney act as his representative, a letter signed by the officer normally is included authorizing the representative to handle the registration process on behalf of such officer and the applicant.

C. *Results of Failure to Register or Denial of Registration*

Negative consequences flow from the failure to register a technology transfer agreement, and from the denial or cancellation of such registration. These agreements are deemed null and void and therefore unenforceable under Mexican law.[102] Such unregistered agreements also subject the parties to fines up to the "amount of the agreed transaction," or up to 10,000 times the minimum daily general wage in the Federal District of Mexico (approximately U.S. $36,000 based

100. Ley Federal de Derechos, D.O., Jan. 3, 1990, at art. 73. Based upon recent exchange rates, such fees range between U.S. $5.00 and $70.00 and may be increased depending upon the number of patents and trademarks involved.

101. The foreign transferor or applicant may wish to include a Mexican Certificate of registration of patents and trademarks being licensed. The 1990 Regulations provide that it is not necessary for the transferor to defend the transferee upon a third party claim of industrial infringement if such certificates have been submitted to the Ministry. 1990 Regulations, *supra* note 1, at art. 47(2).

102. Technology Transfer Law, *supra* note 2, at art. 11.

upon recent wage and exchange rates), depending upon the "gravity of the default."[103] In addition, failure of registration may subject the parties to significant negative tax consequences.[104]

VI. CONCLUSION

Salinastroika in the areas of technology transfer, direct foreign investment, and intellectual property are establishing new opportunities for participation by foreign businesses in Mexico. In the first two years of his six-year term, President Salinas has taken significant steps to restructure an economic policy historically designed to restrict foreign investment in and technology transfers to Mexico. The new openness was born of the perception that the prior restrictive policy towards foreign business had been a domestic economic failure.

In the technology transfer area, the 1990 Regulations to the 1982 Technology Transfer Law have liberalized dramatically the procedures for transferring and licensing technology, intellectual property, and technical and advisory services from abroad. This was accomplished principally by means of a broad exemption from the traditional grounds for denial of the registration applicable to all technology transfer agreements. Such exemption is triggered if a benefit to Mexico will derive from the agreement. The 1990 Regulations simplify the agreement registration process, exempt certain technology transfer agreements from registration altogether, and recognize franchise agreements for the first time under Mexican law.

Enacted and proposed changes in the related areas of direct foreign investment and intellectual property have also decreased restrictions upon foreign involvement in the Mexican economy. New regulations to the Foreign Investment Law provide exemptions permitting foreigners to hold up to one hundred percent ownership in most industrial, trade and service activities. Similarly, proposed reforms to the Intellectual Property Law should provide greater levels of protection,

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103. *Id.* at art. 19. The "amount of the agreed transaction" will be based upon all activities undertaken during the term of the relevant agreement. As a practical matter, however, fines based upon "the amount of the agreed transaction" would be imposed only when there is a transaction that may be readily valued.

104. *See* Mexican Income Tax Law, *supra* note 96, at arts. 24(XI), 120(B). Payments made under a non-registered technology transfer agreement are not tax-deductible by the transferee. Moreover, if the transferor is a shareholder of transferee and payments are made under a non-registered agreement, such payments may be taxable as dividends at a 35% rate. *Id.*

and higher instances of patentability, to foreign transferors of intellectual property to Mexico.

Reforms in these areas have worked to ameliorate the negative effects of the trilogy of restrictive legislation enacted in the 1970's that was designed to restrict foreign business involvement in Mexico. Only time will tell whether the foregoing reforms will act as a genuine catalyst to increased foreign business activity in Mexico, or whether additional liberalization of the economy will be necessary.

As this article goes to press, the authors have learned that on December 6, 1990, President Salinas submitted to the Mexican Congress, through the Chamber of Senators, a draft of new intellectual property legislation. The proposed legislation actually provides for the complete abrogation of the Technology Transfer Law, and therefore of the attendant technology transfer agreement registration requirements and procedures. When the Congress adjourned in late December 1990, however, the legislation had not been discussed. Congress returns to regular session April 15, 1991, when the legislation likely will be considered.