

Another View of New Mexican Laws

An assessment of the Technology and Foreign Investments Law — from the practicing lawyer's point of view

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Apart from the good or bad contained in the Technology and Foreign Investments Laws, the basic motives of the Mexican Government, with respect to the transfer of technology, was to avoid the flow of currency out of Mexico in the form of royalties paid for technical know-how which was either obsolete or available in the country; and, with respect to the foreign investments law, to reach the reasonable point, where the foreign investor shares his investment with Mexican investment, thus obtaining a speedup in the nation's development.

In practice, because the human being is a fallible creature, the application of these two laws has been positive sometimes and on other occasions not all that could be desired by those of us who deal with them.

The Mexican Law on the Registry of Transference of Technology and the Use and Exploitation of Patents and Trademarks was published in the Mexican Government Official Journal, December 30, 1972. Its application is directed to all contracts, agreements, or acts, having effect within the national territory, effected or executed with respect to:

- a. The authorization to use or exploit trademarks.
- b. The authorization to use or exploit invention patents, improvements, and industrial models and designs.
- c. The supply of technical knowledge by means of blueprints, diagrams, models, instructive forms, instructions, formulas, specifications, training of personnel, and any other means.
- d. The furnishing of basic or detailed engineering for the construction of installations or the manufacture of products.
- e. Technical assistance, in whatever form rendered.
- f. Services for the administration and operation of companies.

As you know, Mexico is eminently a receiver of technology, which it receives from highly-industrialized countries, predominantly, the United States. The propaganda dispersed throughout the world as to the intention of the Mexican Government to pass a law which would have as its purpose the control, and even the restriction of the transfer of technology, and what was taken as even more alarming, the reconstruction of

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Licensing Agreements already in force, produced an alarming effect among those who provide technology and licensing of foreign patents and trademarks.

My own experience and that of many others, oblige me to report that Mexican authorities empowered to execute the laws and to conduct negotiations for licensing agreement have been a great help in dispelling the alarm provoked at the initiation of the laws. It goes without saying that their job is to apply the law to the letter, but even so they have done so with the permitted flexibility and without deviating from the margins which the law and its interpretation permit. As I indicated, because of the human element or the circumstances inherent in each case, the application of the law and the participation of the authorities has been on some occasions positive while on others perhaps not all that was desired.

Highest Authority

The highest authority in charge of executing the law is the General Bureau of the National Registry of Transfer of Technology. This is a dependency of the Department of Industry and Commerce, and its job is to decide and resolve the legality of registration of licensing contracts or agreements. These organizations report to the Assistant Secretary of Industry. They have one general director and two assistant directors, one from the Registry and the other in charge of economic evaluations. The assistant director's responsibility is to evaluate the legal aspects and all the economic aspects involved in agreements. These officials work hand-in-hand with lawyers and economists who collaborate with them in the evaluation of the agreements.

The General Director, Enrique Aguilar Riveroll, Engineer, and the Assistant Directors, Jaime Alvarez and Víctor Durán, of the Registry and Economic Evaluation, respectively, and in general, the lawyers and economic experts, are all young, well-educated men. I can say from personal experience that they perform their jobs honorably, in good faith, and with a desire to serve their country.

As a result of operations of the General Bureau of the National Registry of Transfer of Technology and the passage of time, procedures have been developed which facilitate processing agreements for approval and registration. I believe the administration's handling of a considerable quantity of agreements has helped speed the process, because the administration also wanted to expedite the study and solution of innumerable agreements within the terms of the law.

For example, the contracts entered into before the law went into effect had to be adjusted to conform to the law by January 29, 1975. The authorities were allowed by Law, 120 days from the date of the application to submit a

resolution. Unfortunately, at the end of January, a large majority of agreements had not been presented for adjustment, despite the fact that they had been allowed two years to do so. For this reason, the officials of the National Registry instituted a procedure to help those interested and to help themselves at the same time. Requests made before the law was passed were considered as conforming thereto, so that interested parties could submit a new or modified agreement conforming to the dictates and criteria of the new law within 120 days thereafter. The interested parties and officials of the National Registry could count on an additional time limit in which to comply with the new law. Moreover, authorities have acceded when parties who were not able to submit new or modified agreements and requested a further extension of 120 days.

Helpful Features

In addition, the administration of the National Registry has instituted certain other helpful features. It has given anticipated decisions and opinions, with respect to legal and economic aspects, not strictly specified within the dictates of the law. Interested parties can avail themselves of these as a guide toward the composition of new and modified agreements to those submitted for recording. These permit private parties the chance to personally negotiate and discuss their case with officials of the National Registry. These negotiations have produced excellent results in practice; they have permitted the authorities to have a clear picture of the concepts and claims contained in the agreements.

When the National Registry receives with new contracts, it is allowed 90 working days in which to render a decision as to whether they proceed. The Assistant Director of the Registry makes an evaluation of the legal aspects of the agreement, making sure it conforms to the dictates and interpretation of the Law. The Assistant Director of Economic Evaluation evaluates the economic aspects. With these two opinions, the General Director decides whether or not the registration proceeds. Nevertheless, in actual practice the possibility exists of meeting with and discussing the outcome of the legal and economic decisions so that if the latter have been negative, both parties can reach an agreement in the best interests of licensor and licensee.

Now for the legal and economic criteria established so far by the authorities, for the execution of the Law. In the legal aspect, the prime concern is that Article 7 has been complied with. In the economic area, the amount of royalties paid by the licensee to the licensor for the transfer of technology, use of trademark or exploitation of patents is studied first. In this respect, following is a brief resumé of the legal concepts which are of major concern to the authorities as well as the outstanding economic problems, and the way in which they have been resolved in actual practice. They have created problems to the foreign licensor.

The problem of confidentiality of technology transmitted to the licensee is undoubtedly the greatest problem of the licensor and the authorities. Section XIII of Article 7 of the Law prohibits the registration of agreements when they stipulate excessive periods of duration, which in no case may exceed 10 years of

obligation on the part of the recipient of technology. The authorities have adopted the policy of considering unregistrable any agreement which would make the licensee obligated after the termination of the contract, or for an unspecified period, or for a period which exceeds the maximum authorized by the Law. The licensor does not wish his technical know-how to be divulged for a certain period, even after an agreement has been terminated, even though the latter has been in effect for 10 years. The authorities have established that, (a) a licensee shall not assume obligations after the expiration of an agreement or for a period which exceeds 10 years and that, (b) a licensee has paid for technology received, and as a result of that payment, he may consider it his and use it as he sees fit.

The authorities have resolved this problem, to make the interests of the licensor compatible with the dictates of the law, but how will the confidentiality of the technology be safeguarded? In several instances, and I am proud to have helped to find the solution, the licensee was permitted to guard the secret or confidentiality of the technology during a certain number of years, up to a maximum of 10, from the date on which the technology was originally supplied. In this manner, the confidentiality of technology which was supplied, let us say, during the last month in which an agreement was in effect, shall be retained for the period which would have been stipulated, even in the event that the agreement had ceased to be in effect. That is, that the licensee never takes on obligations in excess of 10 years; its commitment to safeguard the confidentiality begins on the date on which the technology was supplied by the licensor and, as a result, the duration of the commitment shall be counted from that date.

Prime Concern

Another prime concern is that which has to do with exports, because there, too, interests differ. The licensor obviously does not wish to have competition from the licensee with his own technology, or at least not in geographic areas where the former operates. The Mexican Government is desirous of increasing exports and diminishing imports. The solution to this problem has been to allow the registration of an agreement (even one containing exporting limitations) when the licensor shall have previously granted exclusive sales rights in other countries, or, in matters dealing with patents or non-patented technology, when the licensor shall have previously granted exclusive exploitation rights to third parties. It also has been permitted when the licensee has been granted certain markets for exportation, as long as they are sufficient to satisfy the licensee's exporting capacity. Another restriction is that which prohibits the licensee's exporting products having the same licensed trademarks. The authorities are in favor of this last point, wishing to develop instead our own national trademarks.

I believe, as a result of my own experience, that another concern of licensor, licensee, and of the government itself, is that which has to do with any innovations or improvements developed by the licensee from the technology supplied by the licensor. The law prohibits that the licensee be obligated to turn over gratuitously any innovation, improvement, patent, or trademark developed by the licensee in this respect. Nevertheless, the authorities have permitted the latter to do so voluntarily,

if and when the licensor shall submit a counterclaim, contracted by mutual agreement, in which he agrees to use same in a predetermined territory.

A concern of all involved in licensing in the economic aspect of the agreements, is that of royalties which must be paid by the licensee to the licensor. There are several different concepts involved therein, especially those referring to trademarks, patents, the supply of know-how and technical assistance, basically involved with the relation of capital stock owned by licensor and licensee. This is a matter for concern due to the large number of licensing agreements made between foreign companies and Mexican subsidiaries.

Because of the strictness or flexibility with which they are handled, I shall divide these concepts into two groups: (a) patents and trademarks, and (b) supply of know-how and technical assistance.

Royalty Payments

With regard to royalty payment, the first two concepts are handled similarly. In general terms, payment of royalty is not authorized for the use of trademarks or exploitation of patents when the licensor has a majority participation in the capital stock of the licensee. The Registry has been inflexible on this point. When there is no capital relationship between licensor and licensee, the authorized payment is generally 1 percent of net sales. However, the Registry is somewhat more strict with regard to trademarks than to patents, since authorities wish to discourage the acquisition of rights for the use of new foreign trademarks. They want to encourage development of national trademarks, except when foreign trademarks are considered useful for exporting purposes, or when marketing conditions justify their acquisition because of the prestige contained in the trademark and the impact that they could have in the development of new values and services of interest to the country.

The flexibility with which patents are handled derives mainly from the value of same and an individual analysis of each case.

The concepts of supply of technical information and technical assistance are treated more flexibly, even in the cases where a capital relationship exists between licensor and licensee. Royalty payments in these cases average a 3 percent of net sales.

It is important to point out that after payment for nonpatented technical information, no restriction for its use shall be in order after the termination of an agreement. Also, several difficult concepts are considered for the payment of technical assistance, which vary from a consideration of each of the products and their importance in the operation of the company, to the degree of complexity of the manufacturing process, the age of the product, and the processes related to the technical assistance.

Technical information is evaluated, in each case according to its simplicity or complexity.

Further concepts are considered in the economic evaluation as each case is presented. These vary from an analysis of the industrial factor, sum total of sales, dividends, workers' profit-sharing, exportation possibilities, taxes, etc.

In addition, the licensor, licensee, and the authorities are faced with many other problems of equal importance,

but for lack of space, I shall not go into them here.

The licensor and licensee feel that there should be a reciprocal understanding between themselves and the authorities as to the interests involved in the licensing of technology, the use of trademarks, exploitation of patents, and supply of technical assistance. In the absence of understanding the economy of our country is the greatest loser.

I shall conclude this topic with the following comment:

- a. There should be more experience in the application of this law before any new general criteria, which would be applied to concrete cases having their own peculiarities, are established.
- b. The providers and the recipients of technology would do well to make a great effort to learn and to use the new doctrines of technology in dealing with the National Registry of Transfer of Technology, as a means toward obtaining maximum results.
- c. The high professional standards of the Registry's personnel and their willingness to cooperate guarantee that the licensor and licensee shall have the opportunity to present their case to the government.
- d. The personnel of the Registry should continue their policy of cooperation with, and comprehension of, the interests of licensor and licensee, so as to encourage, based on fair treatment to all sides, the transfer of technology, so necessary to Mexico's progress.
- e. For practical purposes, I would emphasize the need for licensors and licensees to avail themselves of specialized counsel that will enable them to properly negotiate their agreements with the very capable Government authorities.

Investment Law

And now for the Law to promote Mexican Investment and regulate Foreign Investment.

The purpose of the law published in the Mexican Government Official Journal on March 9, 1973, was to incorporate in one document Mexican opinion established over a period of years relating to foreign investment. It consisted basically of a speed-up of national development, not by prohibiting foreign investment, but by receiving such, but in a less discriminatory manner. The government's concern is not the quantity of foreign investment, but rather the quality of it.

As was the case with the law of Technology, this particular law caused alarm inside and outside of Mexico. I personally believe that there is continuing concern due, perhaps, to the fact that the investor always desires control of the company in which he wishes to invest. As you know, the law prohibits foreigners from owning a majority of capital stock or controlling the administration of newly-formed corporations. Only with time will we know whether this law is beneficial to the country. I believe and I try not to be partial, is that the strict restriction of a flow of foreign capital to developing countries is not at all a healthy measure, especially when this capital brings along with it valuable technology and other indispensable benefits.

With respect to the two hypotheses of this law, — the promotion of Mexican investments, and the regulation of foreign investments — I believe that the second of the two

has been more actively realized. This is my particular point of view.

There are three basic authorities in charge of the execution of the law: The National Commission of Foreign Investments; The Executive Secretary of the Commission, and the National Registry of Foreign Investments. The Director of this last-mentioned Registry is the Executive Secretary of the Commission. The Commission is made up of seven Secretaries of State, and, aided by the Executive Secretary, judges and resolves upon all matters involving the participation of foreign investment in the country.

Executive Secretary

The Executive Secretary's job basically is to pass judgment on all matters presented to the National Commission of Foreign Investments. Apart from this, he directs the National Registry of Foreign Investments, where all foreign investors must be registered, as well as Mexican companies possessing foreign capital, titles of shares belonging to foreigners, or trusts in which a foreigner has a participation.

With the exception of applications for registration of Mexican companies having foreign capital, foreign investors, and titles of shares belonging to foreigners, presented to the National Registry up to January 18, 1974, the Commission has processed and resolved upon relatively few applications relating to the dictates of the law, and has published criteria as to the interpretation of same.

It is important to know that a company formed before the law went into effect is subject to no modification whatsoever, neither in its capital nor in its administration. It may be affected only in the event that it should desire to create new establishments, initiate a new line of products, invest in new fields of economic activity, or in the case of a Mexican company, when more than 25 percent of its capital stock or more than 49 percent of its assets, are to be taken over by foreigners.

With respect to the acquisition of capital stock which would give control of the company to foreigners, this has occurred in some cases through the creation of trusts,

which, during a certain period of time, permit the control of the company to the foreign investor. It is provided that, at the termination of the trust, any shares in excess of the 49 percent stipulated as the maximum amount permitted to the foreign investor, shall be put up for sale to those persons legally capacitated to acquire same. In some cases, this procedure has taken place without the knowledge of the National Commission of Foreign Investments, and in other cases, under the auspices of the Commission.

There is some doubt as to the necessity of prior permission of the Commission, since, according to the Mexican laws governing trusts, the fiduciary institution is that which acquires the shares, and only the privileges derived from same, such as an assembly vote, and the receipt of dividends shall apply to the foreigner who figures as the beneficiary within the terms of the trust. The beneficiary exercises his voting privilege through a Technical Committee who instructs the fiduciary institution as to how to use its vote.

There is no doubt, however, that these trusts must be registered with the National Registry of Foreign Investments, due to the participation of foreigners, and the privileges derived from said trust. Up till now, we know of no resolution either accepting or denying the registration of a trust of this type. I refer to those formed without the prior consent of the Commission. I believe that, according to the law, the National Registry should register them, considering the legality of the acquisition of shares by a 100 percent Mexican company, as are the fiduciary institutions in Mexico.

Nevertheless, if one contemplates the spirit and the philosophical aspect of the law, which prohibits a majority participation of capital stock and control of a company by foreigners, one arrives at the conclusion that the authorities might object to a trust of this type.

I believe that procedures such as these should be studied in relation to the circumstances of each individual case, particularly when such operations can be beneficial to the country, as for example, the creation of new jobs, source of taxes, technology, increase of exports, and a reduction of imports, or any other which would produce economic benefits to the nation.