

# Mexico's New Regulations

*A review and discussion of difficulties with application and interpretation of technology transfer controls*

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Over the last 10 years, the Mexicans, in trying to help themselves in respect of technology acquisition, have instead done themselves damage. The January 1982 Law<sup>1</sup> broadened the damage and should be amended, but the new regulations<sup>2</sup> show recognition of that damage potential and have set the stage for a more balanced application of Mexico's technology transfer rules.

The principal stated objective of the technology transfer law is to reduce Mexico's dependency on foreign sources of technology. Let me digress a moment with a story. As a boy, I lived in a small village which was dependent on the larger adjoining town for fire department protection. After a time the village decided to reduce its dependency on the neighboring town. As a first step, some villagers volunteered for training as firefighters and were instructed by the professionals from the neighboring town. Next, a building was modified to serve as the firehouse, and money was raised to buy a fire truck. The neighboring town was kept on contract for backup assistance in case of a major fire. As a result, the dependency of the village on the town was reduced.

But suppose the village plan for reducing dependency had instead set up a committee with authority to inspect the town fire trucks each time before they entered the village to make sure they suited the needs of the village. Suppose the plan ordered that payments for fire protection service be unilaterally cut, that the number of firefighters be limited, that the town's fire trucks would belong to the village if they stayed too long, and that the length of the ladders would be shortened. This, too, would reduce dependency, but perhaps not as wisely, from the village's point of view. As I see it, Mexico has been pursuing both approaches, but with unnecessary emphasis on the latter.

The Mexican Law is based on two central propositions. First, all technology transfer transactions must be submitted to a government registry and reviewed for fitness to attain validity in Mexico. Second, in most cases, at the end of the transaction the sup-

plied technology will be owned by the Mexican transferee. In other words, transactions will, in effect, become paid-up licenses. This has put exceptional pressure on the confidentiality clause. Technology suppliers have wanted to extend the confidentiality period as long as possible, while our Mexican friends at the Technology Registry have sought the opposite.

Those demands have spawned several tendencies. First, technology suppliers have sought to limit their transfers to affiliated or at least partially controlled companies—hence joint ventures—or, second, they have refrained from offering technology (usually their best or most advanced) which they will not risk escaping to third-party competitors by way of Mexico.

## A 10-YEAR HISTORY: THE REGISTRY OFFICIALS

Mexico's first law concerning the transfer of technology took effect in early 1973.<sup>3</sup> A registry was created under what was then the Ministry of Industry and Commerce. Enrique Aguilar, who after training and business experience in Mexico served as director of international licensing for Monsanto, became first Director of the Registry. He provided valuable comments to Mexican officials in drafting the new law. Agreements existing at the time the new law took effect were granted two years before they had to be amended to conform with its requirements. No regulations were issued under the 1973 Law. Instead, speeches and an informal document called "Summary of General Criteria for Application of the Law"<sup>4</sup> were offered for better understanding of the thinking of Registry officials.

Late in 1974 Enrique Aguilar left the Registry for a top post at the United Nations in UNIDO. One of his sub-directors, Lic. Jaime Alvarez Soberanes, was appointed director. He served until 1978, holding over from the Echeverria into the Lopez Portillo administration. While director, Lic. Alvarez became one of Mexico's spokesmen on technology transfer matters, not only to the U.S. private sector, but also to various United Nations agencies and third-world governments. He was criticized by many U.S. businessmen as being ideological, inflexible, and opposed to U.S. business interests. In my view, Lic. Alvarez, who is a lawyer and law professor, was taking directions to some extent from superiors and was learning the extraordinary complexities of a wide variety of arms-length commercial transfers of technology. Few people have had to deal with such diversity. He was assigned an extremely difficult, if not impossible, task—deciding what technology

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transfer arrangements would benefit Mexico. He said his principal role was to be a tough negotiator.

Toward the end of Lic. Alvarez's directorship, he invited a handful of American business lawyers to meet with him and other government officials in informal, technical-level discussions concerning administration of the Mexican Law on Inventions and Trademarks which had been promulgated in 1976.<sup>5</sup> This group, which has become known simply as the Ad Hoc Group, currently has representatives from 17 major U.S. corporations such as DuPont, Sears, Monsanto, Pfizer, FMC Corp., Phillips Petroleum and Caterpillar.<sup>6</sup> Over the last six years the Ad Hoc Group has discussed with government officials from cabinet to sub-director level official policy regarding patents and trademarks and more recently, technology transfer with emphasis on the benefits which strengthened rules can bring to Mexico's development.

At the end of Lic. Alvarez's directorship he recommended that the Technology Registry be combined with the Foreign Investment Commission's Secretariat. His recommendation was adopted. His successor, Hector Alvarez de la Cadena, who put on both hats, continued meeting with the Ad Hoc Group.

#### Joint Commission

Early in 1982, the Mexican-U.S. Joint Commission on Commerce and Trade, established by Presidents Reagan and Lopez Portillo, added to its apparatus a working group on intellectual property protection. The Ad Hoc Group has provided most of the U.S. private sector advisors to this working group. In effect, this has meant that U.S. officials, principally from the Commerce Department and the Office of the United States Trade Representative, have joined in ongoing discussions between the Mexican officials and the Ad Hoc Group.

The technology transfer law of 1982 was written by Hector Alvarez de la Cadena and his staff. A stated purpose was to codify positions taken by the Registry in administering the 1973 Law, but the new law goes well beyond. On November 25, 1982, regulations to the new law were issued. The Ad Hoc Group met extensively with Registry officials in advance of issuance of these regulations.

On December 1, 1982, President Miguel de la Madrid Hurtado took office. Most of the officials who wrote the 1982 law and the regulations have left for new assignments. Administrative responsibilities for technology transfer and foreign investment have been moved to the newly restructured Ministry of Commerce and Industrial Development (SECOFIN). The sub-minister, to whom these two functions now report, is Lic. Mauricio de Maria y Campos, secretary to the Foreign Investment Commission at the end of the Echevarria administration.

The new Director of Technology, Inventions and Trademarks, who will report to Lic. de Maria y Campos, is Lic. Jaime Alvarez Soberanes. Soberanes thus returns to the technology-transfer function with added responsibility for the Patent and Trademark office. From 1978 to 1982 he served in the Housing Authority, in the Foreign Affairs Ministry with responsibility for technology agreements between governments, and

in Hacienda where he and Lic. de Maria y Campos were responsible for awarding tax credits to investors on the basis of their contribution to Mexico's economic goals.

Lic. Alvarez is, therefore, extremely well prepared for his resumed technology responsibilities. Although he has written extensively on the subject from a particular point of view in recent years,<sup>7</sup> there is reason to believe he will attempt to administer the technology function in a balanced style, keeping in mind the altered priorities and needs of Mexico's troubled economy.

#### STRUCTURE OF THE 1982 LAW

The 1982 Technology Transfer Law, although restructured and with more than a few significant additions, is not too different from the 1973 law.

At the outset, in Article 2, the 1982 law establishes what is to be registered. To the list contained in the 1973 law it adds as subject to registration agreements for "basic or detailed engineering," "advising, consulting and supervising services," "licenses of copyright for industrial exploitation," and "computer programs." Article 4 adds jurisdiction over in-bond agreement. A new provision in Article 9 establishes a rather wide range of criteria for exercise of the Registry's discretion. Article 12 establishes a 90-day period within which the registry must act on submissions, with agreements deemed approved if no action is taken within that time. Some closing articles put fairly sharp teeth into the law by establishing sanctions.

The key provisions of the law are Articles 15 and 16 which establish the prohibited clauses and prohibited conditions. The prohibited clauses of Article 15 make three additions and several modifications to the litany of the 1973 law. Information cannot be kept confidential for a period longer than that of the agreement itself; you must guarantee both the quality and results of your technology; and you must hold your licensee harmless from infringement of third-party rights. These are burdensome additions to the prohibited clauses.

On the other hand, several prohibitions have been modified. The denial of grant-backs has been softened, permitting them where an appropriate reciprocity exists. An exclusive export sales agency by the technology supplier is permitted if the Mexican recipient agrees to this. These modifications show a greater recognition of normal commercial dealing.

Article 16 reflects the same two trends. A new provision has been added saying that offered technology may be precluded if similar competing technology is available in Mexico. But, disputes may be submitted to international arbitration rather than to the courts of Mexico if this has been agreed to by the Mexican licensee. The law of Mexico must be applied by the arbitral body.

#### THE REGULATIONS OF NOVEMBER 1982

The regulations of last November have moved considerably toward a more balanced recognition of arms-length commercial dealing.

In contrast to the regulations issued under the

patent law (which appeared thrown together, ill-considered and which avoid most of the difficult issues arising under that law,<sup>8</sup> the new technology regulations were carefully thought through, professionally drafted (for the most part), and attempt to deal with many of the most troublesome issues in the law. Having said this I caution that they are, like most Mexican legal drafting, still quite vague.

They will come as a shock to most U.S. lawyers unfamiliar with Mexican statutory style. The vagueness is of at least two types. Some provisions are accidentally vague, the consequence of Spanish syntax or simple lack of appreciation for the complexity of arrangements by which technology is made available by one party to another. Much more frequent is the deliberate vagueness which gives room for administrative discretion. This would be found in a phrase such as "excessive economic burden." In other instances vagueness derives from lack of a defined term. For example, the term "assimilation" is introduced in the regulations without a hint as to its meaning. The problems which this creates are discussed below.

The preamble to the regulations is quite important, more so than is the ordinary preamble to a set of regulations. The preamble states that these regulations are designed to complete the 1982 law, to bend and shape it, and to resolve problems of interpretation. Reading between the lines and perhaps indulging in poetic license, the preamble seems to be saying that the regulations seek to rise to an importance equal to the Law. They almost say that the law is being changed in quiet ways by the regulations. Indeed, in my view, the regulations both broaden and narrow the law in important respects.

As to the design of the regulations, first there are some procedural arrangements. Then, a new provision creates a basis for informal prior consultation with the Registry. If the Registry issues an opinion, it is binding for 15 days. Several articles then clarify and limit the subject matter which is registrable under Article 2. There is a long section dealing with computer programs. In the law itself only two words—"computer programs"—mention this subject. Yet in the regulations there are 10 articles dealing with computer programs, which will themselves eventually require more regulations.

There is then a remarkable provision which permits the Registry to grant conditional approvals. This is Regulation 37. My advice would be to avoid conditional approval since it seems to give the Registry an opportunity to monitor a transfer transaction over the life of the agreement. Better to adjust the original agreement being registered to comply with Registry wishes than have it registered subject to conditions imposed in the Registry's approving opinion. In my view, a transaction conducted under a conditional approval will eventually lead to confusion as to the legal rights of the two parties to the transaction.

Finally, the regulations have an extended section interpreting the prohibited clauses and conditions of Articles 15 and 16. It is typical in this section to give emphasis and greater definition to a prohibited clause or condition in one regulation and then, in the next, state a number of exceptions to the prohibition. These ex-

ceptions, and there are a number of them worth careful study, go a great distance in recognizing normal arm's-length commercial arrangements. They will provide the Registry with a new basis for balanced administration of the 1982 Law.

## SELECTED DIFFICULTIES IN APPLICATION AND INTERPRETATION

This section will discuss in some detail selected difficulties in the application and interpretation of the law and the new regulations. There are far more difficulties than can be discussed here. The ones selected are those on which the Ad Hoc Group has focused its discussion with the Registry officials.

### *Payments for Technology*

First, what about royalties? How can you know in advance what royalty you will be permitted for transfer of your technology? The law sets no limits or specific guidelines. In the past, Registry officials have handled applications on a case-by-case basis. Over time they have developed a feel for the level of royalty appropriate to certain types of agreements.

Regulation 63 is the new battleground. It offers several clues beyond those offered in the 1973 Law and its "guidelines." They are not encouraging.

First, the "lowest worldwide available price" is now stipulated as a guiding consideration. This can mean almost anything. Perhaps it means a reference to Eastern European subsidized prices or to prices set by companies which have, through inadequate patent protection, acquired technology through reverse engineering, thus sustaining only nominal research costs. Whatever "lowest worldwide price" means, it surely means lower compensation than what you had in mind.

Second, compensation between affiliated companies will now get a special look. Although the regulation does not state that affiliation means a lower royalty, it is unlikely it would mean a royalty higher than an arm's-length transfer would justify.

Third, the Registry can examine the burden of the proposed royalty on both the licensee/acquirer and on the Mexican economy. In a time of scarce foreign exchange, which may well be for the next three to five years, how likely is it that generosity will characterize the Registry as it establishes permitted royalties?

Incidentally, it should be noted that whether foreign exchange will be available to pay royalties is a function of the central bank, not the Registry. For a few months late in the Lopez Portillo administration the exchange regulations stipulated a preferred rate for royalties although on a low-priority basis. The latest stipulation provides no preferential rate for royalties. It may be possible to negotiate deferred payment of royalties with interest or other special arrangements to compensate for the delay.

### *What is Registrable?*

Another difficulty in administration and interpretation arises when you ask the question "What must be registered?" First of all, the law contains no definition of technology. Instead, the draftsmen establish that all actions, agreements and contracts reduced to writing which relate to enumerated types of transactions must

be registered. Recall that several new categories of transactions have been added under the 1982 law. These are for agreements relating to engineering, services and computers. Incidentally, the deadline for registering preexisting agreements that fall into these categories was December 17, 1982. It is unlikely that all computer program agreements were registered within that period, creating difficult problems both for companies and for the Registry.

Some types of transactions are excluded by Article 3 and by the regulations. In discussions with previous Registry officials, the Ad Hoc Group learned that they had no interest in registering agreements for transactions whereby services are performed by lawyers, doctors and accountants. Unfortunately, the regulations do not make explicit this intention.

What do you do if you are uncertain whether your agreement is subject to registration? As mentioned before, the regulations state that you can approach the Registry for a prior opinion. The opinion is binding on the Registry for 15 days. Nothing in the law or regulations compels the Registry to offer its opinion promptly. It is also not clear what happens after the 15-day binding period if the Registry's opinion states your agreement is not subject to registration. Might it, thereafter, become subject to registration?

A further word of caution. Beware of actions ("actos" in Spanish) which are recorded in documents and are, therefore, subject to registration. A course of dealing which might incidentally produce a check or an invoice or even a telex could constitute an action recorded in documents and therefore be subject to Registry approval.

#### *Computer Programs*

As mentioned, Article 2(m) of the law contains only two words regarding computer programs, while the regulations contain 11 articles which are difficult to follow.

There are many thousands of form leases for computer programs in Mexico. To register every one of them would present an enormous administrative burden for the Registry and for users of computer programs. The regulations have adopted the expedient of requiring that the first use of a form lease triggers registration of that form. Subsequent uses of the form for other leases, however, are simply to be tabulated and reported once each year to the Registry. Problems arise as to which party is responsible for this annual report. Either party is subject to sanctions for failure to report. However, the lessor is the only party in position to supply the data called for in the report. Lessees should perhaps, therefore, insist on being held harmless by lessors against failure to report. The sanctions for non-reporting are fairly stiff.

Will computer software become the property of the Mexican end user? The question is difficult but, in my opinion, after examining the law and regulations carefully the answer would be: yes, software may very well become the property of the end user under some circumstances. The Ad Hoc Group held lengthy discussions with prior Registry officials on this and related points, and many of our questions were not resolved nor do the regulations resolve them.

Copyright is an historic method for protection of

computer programs. This protection, however, could be cut off in several ways: by the denial of registration of existing leases, by failure to file the annual reports resulting in invalidity of the leases, or in some cases through imposition of the 10-year limit on the duration of agreements. It appears under the regulations that industrial property rights such as copyright, which would normally extend in time beyond the period of the agreement, would be honored except where the use of a computer program is *central* to the end user's business.<sup>9</sup> The Ad Hoc Group discussed with the Registry people in 1982 case examples of what is meant by "central" but gained only a very imprecise sense of the Registry's intention.

The main impression which the Ad Hoc Group gained from discussions with the Mexican officials are that they recognize the far reaching social and industrial effects of the "information revolution," that they want Mexico to keep pace with innovation rather than "catch up" at great cost, but that for the time being they are simply seeking information regarding commercial dealings in computer programs. They are not interested in disrupting those commercial patterns. Their efforts may, however, be a prelude to some later intervention in current commercial practice.

One troublesome point. Mexican software distributors are made exempt from registration fees,<sup>10</sup> which clearly discriminates against foreign distributors. The term "Mexican" is as defined for purposes of the foreign investment law.

#### *Know-How Protection*

The protection of know-how is touched upon in the regulations at several points,<sup>11</sup> but the overall effect is not enough to overcome the serious lack of adequate legal protection for know-how or trade secrets in Mexico.

The law states that periods of confidentiality may not extend beyond the term of the agreement, which shall not exceed 10 years. Regulation 56 specifically recognizes that certain cases of novel or single source technology may warrant exceptional treatment, permitting the grant of an extended term for confidentiality beyond the normal 10-year limit. Under the old law (1973), if continuing know-how was to be provided, it was sometimes possible to gain approval of a confidentiality period of up to 10 years after the last of the know-how was transferred.

But none of the provisions of the 1982 law or the regulations provide any remedy in the event confidentiality is breached. In discussions with the Registry officials the Ad Hoc Group learned that they would probably approve a clause obliging the licensee to have and to enforce employee secrecy agreements against workers exposed to licensed know-how.

The Ad Hoc Group has urged the Registry to consider enactment of a specific law which would establish adequate legal protection for know-how. Some interest was shown in the proposal and further discussions may be held on this subject.

#### *Hold Harmless*

Article 15(XII) (another new provision) requires that the foreign provider of technology hold the Mexican recipient harmless from infringement of the industrial

property rights of third parties. Regulation 57 creates one narrow exception to this requirement where there is no money consideration for the technology transfer. There are a number of obvious objections to this new requirement, not the least of which is the objection from the Mexican point of view, that the risk and cost of assuming this obligation necessarily increases the cost of the technology transfer to the Mexican recipient. Discussion with the officials on this point is not reflected to any significant degree in the regulations. More discussion with the officials may be in order.

#### *Warranty*

Article 15(XIII) (also a new provision) states that agreements will not be registered if they do not guarantee the quality and results of the technology.<sup>12</sup>

Regulation 58 seems to narrow the scope of this warranty requirement slightly by implying that the problem will arise only when there is a total denial of any liability on your part. The posture of the regulation seems to contravene the impression arising from Article 15(XIII) that any warranty should be a very broad warranty typical of a turnkey project. Regulation 59 permits cut off of liability if the licensee has been at fault in not following design specifications or operating procedures.

In discussions with the previous officials, they indicated the warranty would be mandatory only if the Mexican technology recipient insists on one. This is not found in the regulations but might still indicate Registry thinking. It would be a mistake to cross Mexico off your list because a warranty, although inappropriate to your transaction, appears mandatory. Using its discretion, the Registry may waive the requirement or approve a limited warranty. It may take the officials some time to learn of the wide variety of warranties in normal commercial use and of which type is customary under various circumstances.

#### *Export Constraints*

The law strikes down any contractual limitations you might want to place on exports by the Mexican recipient of your technology. The regulations stipulate several exceptions and you should examine these. For example, your prior grant of an exclusive license elsewhere or reservation of your own territory may be honored.

A specific problem may arise for United States exporters of technology to Mexico. What happens if the Mexican recipient wants to export the results of your technology, say, to Cuba? Under current United States law you may be required to enforce the U.S. boycott of trade with Cuba. How will the Registry react if your agreement attempts to comply with the U.S. boycott rules by denying export rights to Cuba?

In our discussions with the officials, they were made aware of United States requirements in this regard and expressed awareness of the problem. We understand that an early version of the regulations contained a provision expressly prohibiting clauses which would serve to enforce the U.S. boycott rules. The regulations as issued delete that provision. This may mean that the officials will tolerate this type of export prohibition. The clause should be phrased carefully so that it does not create political difficulties for the Registry

officials.

#### *Grant-backs*

What about the grant-back of rights to use technology innovations developed by your licensee? The 1973 Law stipulated that you could not provide for grant-backs on gratuitous or onerous terms. The 1982 law, Article 15(II), adds the proviso that grant-backs will be prohibited unless there is reciprocity for the Mexican recipient.<sup>13</sup>

Regulation 44 particularizes the reciprocity requirements. There must be reciprocity on three counts: payment, extent of exclusivity, and extent of territory. Our discussions with the officials led us to understand that, in addition, they will take into consideration three kinds of factors: first, the grant-back can be free of charge if the original price was bargained downward as consideration for the grant-back. Second, they might approve a nonexclusive grant-back where the original transfer is exclusive. Third, permission could also be given where there is a double reverse grant-back to the Mexican licensee.

#### *Similar Technology*

A serious difficulty under the law is that of "Mexican Similar." Article 16(I) of the law says you cannot register your agreement for technology which comes from abroad if the same technology is available in Mexico. (This was also the requirement under the 1973 law.)

It is clearer in Spanish than in some translations that the phrase "comes from abroad" applies to your technology and not to the competitive technology sources. In other words, there appears from the text of the law to be no requirement that the competing technology must "come from abroad" to qualify for opposition. But Regulation 60 seems to broaden Article 16(I) considerably by making someone else's technology an effective obstacle to yours even if it is only accessible or available from abroad.<sup>14</sup> It is, of course, possible for the Registry on its own to take cognizance of third-party technology available in competition with yours outside of Mexico.

Regulation 62 seems to make it harder for a Mexican company to offer its technology in competition with yours. Your potential licensee is invited by Regulation 62 to argue to the Registry that "the competing local technology":

- (a) is not available after attempts at negotiation (but at what price?);
- (b) "is not similar;"
- (c) "does not resolve the specific problem of the licensee," or
- (d) "does not respond in a positive manner to the licensee's technological needs."

The practical consideration, of course, depends on whether your potential licensee wants to deal with you or brings in a "stalking horse" to drive a better deal with you. The effect is to complicate negotiations which are already complex enough in the normal range of one-on-one, arm's-length negotiations.

Regulation 60 helps by saying that, to qualify as supplanting your offer, the other technology must have been used on an industrial scale and be "essentially similar and competitive." Moreover, under Regula-

tion 61 a Mexican offerer who wishes to cut you off must have previously advised the Ministry of his technical competence. He apparently cannot rush in after you file your agreement for registration to claim his preferred position. A problem for this phantom Mexican offerer is how he will know of your registration attempt. Presumably, the grapevine will alert him; there is no public notice of registration attempts. Your prospective licensee can alert him, perhaps to help his bargaining position against you. Whether foreign offerers can oppose your proposed transfer is not clear.

#### *Duration and Assimilation*

Problems will arise frequently because the Mexican officials seem unwilling to contemplate that a transaction might legitimately have three distinctly different time periods; one for the duration of the payment obligation, another for duration of the confidentiality obligation, and a third for the length of the agreement itself. The tendency of the Registry officials is to suspect that the longest period stipulated will be the duration of the payment obligation and, therefore, any and all periods should be held within a 10-year term.

Article 16(III) states that agreements will not be registered if they are for excessively long periods. This provision recites a seemingly absolute limit of 10 years for agreements. A secondary question of interpretation which arises is whether the sweeping discretion permitted under Article 17 can override the explicit 10-year limit. The answer is that it can, but you will need strong arguments showing benefits to Mexico. Longer periods were permitted under administration of the 1973 law and the text is unchanged.

Perhaps the most serious problem arising under the regulations, and the one which will generate a great deal of discussion if not anguish, centers on the use of the word "assimilation," which is not defined. Under Regulation 65, the Ministry (not the Registry) may shorten the duration of your agreement (and therefore the term for payment) to any lesser length of time that it considers may be sufficient to assimilate your transferred technology. What can this mean? In discussions with the Registry officials we detected a strong feeling that there have been abuses and the "assimilation" determination is useful in controlling these abuses. An "abuse" cited for us occurs when acquired technology becomes obsolete or less competitive and national companies are required to continue to pay royalties without relief.<sup>15</sup>

When is the period within which assimilation can take place to be determined? We were told it would be fixed at the time of registration. The (previous) officials stated their confidence that through experience and from having checked with industry associations in the U.S., they had gained a knowledge of average assimilation times. That may be, but it is well known that "assimilation" may be rapid for highly-complex technology and lengthy for less-complex processes. Moreover, unexpected problems can arise to prolong the most expert technology transfer operation. But there remains the chaotic problem of knowing what "assimilation" means. Even if it is defined to the satisfaction of the parties to the technology transfer, will a royalty payment period be permitted which is

long enough to spread the payment somewhat over the life of the technology rather than cast a heavy royalty burden onto a short period in cases where assimilation is expected to be accomplished rather quickly?

Although the determination of the assimilation period will be made at time of registration, Regulation 66, by its reference to Article 9 and hence to the conditional approval mechanism of Regulations 37 to 40 discussed above, offers an opportunity for the Registry to revisit the question later and shorten your agreement if they find assimilation has occurred.<sup>16</sup>

#### CONCLUSION

Just when you think that through attentive study of Regulations 41-66 you have drafted your technology transfer agreement to master the intricacies of the prohibited clauses and conditions and their exceptions, you will come upon Regulation 67. This seems to say that if anything else in your agreement strikes the Registry as perhaps violating the spirit of the law, they can prohibit registration anyway. Couple this with the sweeping discretion of Article 17 and you have before you a journey of considerable uncertainty. Some large companies may be willing to devote manpower to the exacting task of reading the subtle signals offered occasionally by the officials and persuading them of the appropriateness of various contractual arrangements. Smaller companies, however, and some large ones as well, will not be this attentive and will more quickly exclude Mexico from their list when they consider transferring their better technology. This is unfortunate because the new regulations for the most part lay a basis for a more balanced administration of the controls placed on technology transfer. A few judicious amendments and the regulations would greatly improve the attractiveness of Mexico as a place to which valuable technology can be transferred.

As with so many of Mexico's rules which constrain foreign companies, the technology transfer regulations extend an invitation to reason with officials and to "make a deal" with them. The officials are quite deliberately authorized to exercise considerable flexibility in dealing with you on a case-by-case basis. Unfortunately, this style inhibits many U.S. companies. Announcements now of even greater flexibility will generate limited excitement this side of the border. Clear and precise rules stating what can and what cannot be done would permit planning which leads to action instead of scheduling trips to visit officials with an uncertain result. If you do go to the Registry, go well prepared to show how your agreement will benefit Mexico as well as your transferee.

The foregoing assessment is made at a time when Mexico is at the beginning of a new six-year administration. At stake is the question of the quality of Mexico's industrial and agricultural growth over the short and long term. The 10-year experiment with technology transfer that began with the 1973 law has brought mixed results, at best. The new administration has an opportunity to redesign its policy in this area. Fortunately, there is openness on the part of the responsible officials now in place and a willingness to think carefully.

## NOTES

1. LEY SOBRE EL CONTROL Y REGISTRO DE LA TRANSFERENCIA DE TECNOLOGIA Y EL USO Y EXPLOTACION DE PATENTES Y MARCAS, *Diario Oficial*, January 11, 1982, pp. 15-20, with effect on February 10, 1982.

2. REGLAMENTO DE LA LEY SOBRE EL CONTROL Y REGISTRO DE LA TRANSFERENCIA DE TECNOLOGIA Y EL USO Y EXPLOTACION DE PATENTES Y MARCAS, *Diario Oficial*, November 25, 1982, pp. 12-20, with effect the next day.

3. LEY SOBRE EL REGISTRO DE LA TRANSFERENCIA DE TECNOLOGIA Y EL USO Y EXPLOTACION DE PATENTES Y MARCAS, *Diario Oficial*, December 30, 1972, pp. 45-47, with effect on January 29, 1973.

4. RESUMEN DE LOS CRITERIOS GENERALES DE APLICACION DE LA LEY, undated but made public in late 1974. The "criteria" were not legally binding and were without legal significance. They were followed by an informal 75-page commentary entitled COMMENTARIOS ACERCA DE LOS CRITERIOS DE APLICACION DE LA LEY, EXPEDIDOS POR EL REGISTRO.

5. LEY DE INVENCIONES Y MARCAS, *Diario Oficial*, February 10, 1976, pp. 7-26, with effect on February 11, 1976. This law created great consternation among technology suppliers and is a continuing concern of many.

6. Current members of the Ad Hoc Group are: Air Products & Chemicals, Inc.; American Cyanamid Company; AMP, Incorporated; Caterpillar Tractor Co.; Data General; Deere & Company; I.E. duPont de Nemours & Co.; IMC Corporation; Goodyear Tire & Rubber Company; Monsanto Company; Pfizer Inc.; Phillips Petroleum Co.; the Proctor & Gamble Company; Sears, Roebuck and Co.; Standard Oil Company of Ohio; 3M Corporation; and Union Carbide Corporation. The membership represents a wide diversity of interests in technology creation, acquisition and transfer.

7. See, for example, "La nueva ley sobre transferencia de tecnologia: Aciertos y limitaciones de la politica gubernamental", *Comercio Exterior*, Vol. 32, num. 10, Mexico, October 1982, pp.

1117-1124; *La Regulation de las Invenciones y Marcas y de la Transferencia Tecnologica*, Editorial Porrúa, Mexico, 1979.

8. The regulations in reference are those published in the *Diario Oficial* on February 20, 1981, with effect on February 23, 1981. An earlier set of regulations was published in the *Diario Oficial* on October 14, 1976, with effect on October 17, 1976.

9. Regulation Article 56(I).

10. Regulation Article 28.

11. Regulation 45(VII) seems to give leeway beyond the prohibition of the law to permit some type of enforcement of a know-how protection clause in agreements. Regulation 51(II) also gives some limited measure of protection with respect to competitive know-how in the hands of the licensee. Article 15(XI) (which is an addition to the 1973 Law) and Regulation 56 are attempts to curtail ordinary contractual protection for confidential know-how.

12. Providing such a warranty may clash with Article 15(I) which prohibits a technology supplier from regulating or interfering directly or indirectly with the management of the technology acquirer.

13. Regulation 43 seems narrower than the provision in the law since the phrase "in onerous terms or free of charge" is left out. From discussions with the Registry officials, it was made clear that Regulation 43 is not intended to be more severely restrictive than Articles 15(II). The regulation was only meant to amplify the words "assign or grant" and the words "patents and trademarks, innovations or improvements." It did not intend to repeat the full text of Article 15(II).

14. I question this as the intent, but it is what Regulation 60 says, and it seems to broaden the prohibition of the law.

15. Assimilation determinations appear to be an inappropriate cure for this, if indeed this is an abuse.

16. Or should have occurred! Conversely, if assimilation takes demonstrably longer than at first determined (even by mutual agreement by the parties), could the period of the agreement be correspondingly lengthened?