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*MANAGING INTELLECTUAL PROPERTY, INTERNATIONAL BRIEFING, APRIL 2005*

On November 30 2004, the Senate sent for revision to the Lower Chamber of Representatives (Cámara de Diputados) a Decree to amend the Mexican Industrial Property Law. Among other amendments, the Decree includes amendments to Article 142 of the Law.

Until now, Article 142 has not been an issue of concern for franchisors since it simply provides for a general concept of what a franchise is. It imposes the offering information that franchisors must disclose to a prospective franchisee prior to executing a franchise agreement, but leaves the parties free to negotiate the terms of the agreement. This follows the principle known as contractual freedom of the parties in Mexican civil law.

Now, turning to the Decree, while the Senate sustains that the rationale behind the Decree is to provide legal certainty to the parties that will enter into a franchise agreement, the Decree essentially intends to interfere in the contractual freedom of the parties as shown by the introduction of compulsory minimum requirements in any franchise agreement.

The most relevant concepts included in the Decree, in connection with franchise arrangements, are:

1. Article 142 of the Law will include a 30-day term obligation for franchisors to deliver the offering circular to potential franchisees. Failure by the franchisor to provide the information within this term may result in actions to nullify the franchise agreement.
2. A new Article 142 bis will be added to provide the minimum requirements that a franchise agreement should include, among which we consider the following as the most relevant: (i) the territory in which the franchisee will perform the franchised activities, (ii) the rules for determining the minimum distance that should be kept between the franchisees' establishments, (iii) the rules for entering into additional franchise agreements within the territory, (iv)

the criteria and methods to determine profit and fees, and (v) the causes of termination and procedures to guarantee the necessary conditions to allow franchisees recover their investment.

3. A new Article 142 bis 1 will be added to limit the franchisor's interference in the administration of franchisees only to guarantee the observance of management and image of the franchise.

4. A new Article 142 bis 2 will be added to provide a specific obligation for the franchisee to keep confidential, during the term of the agreement and after termination, all industrial or commercial secrets developed by franchisor.

5. A new Article 142 bis 3 will be added to provide that none of the parties to a franchise agreement will be entitled to terminate the agreement unilaterally, unless the agreement was entered for an indefinite term, or upon the occurrence of a termination event as provided in the relevant agreement. A termination by a party that does not comply with this article will result in penalties, if penalties were included in the agreement, or will enable the affected party to claim damages from the other party.

6. A new Article 142 bis 4 will be added to provide that the franchisee that has complied with its obligations under the franchise agreement shall have the right of first refusal for further franchise agreements in the territory.

Further, the Decree provides that only those agreements that include all of the minimum requirements will qualify for recordal before the MTO. A present franchise agreements are to be recorded before the MTO only insofar as the licensing of trade marks is concerned.

Additionally and most disturbingly, a new provision is intended to be introduced that provides that the cancellation of the licensed trade mark registration(s) under the franchise agreement will proceed when: one or more franchisees or the MTO determine that the franchisor or any of its subsidiaries has directly or indirectly violated the Industrial Property Law or the international treaties to which Mexico has adhered or that the franchisor performs acts which are contrary to the free competition or that constitute an abuse of industrial property rights.

The Decree, however, is yet to be approved by the Lower Chamber of Representatives, which is discussing it (through the Commission for Economic

Affairs) with the active participation of the international franchising industry doing business in Mexico.