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SOCIOS DE NEGOCIOS EN COMERCIO EXTERIOR (SNCE)
PARTENAIRES D'AFFAIRES EN COMMERCE EXTERIEUR (PACE)
PARTNERS IN FOREIGN TRADE AFFAIRS (PFTA)

"Business Opportunities and Investments in Latin America"

(Geneva-Palexpo, Friday May 28th 1999, 16h00 – 18h00)

SALON 2

Presentation of Program PFTA: ***Mr. Michel CELI VEGAS***

Speakers:

***H.E. Mr. Edwin JOHNSON*,**

Ambassador of Ecuador in Switzerland

H.E. Mrs. Isabel MONTERO DE LA CAMARA,

Ambassador of Costa Rica in Switzerland

***Mr. Ramón TOLEDO*,**

Economic Affairs Counselor of Mexico in Switzerland

Mr. Edward SCHNEIDER,

Manager of LIP Latin America Fund,
Lloyds Bank, International Private Banking

The conference will be held in English with translation into French

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PRESENTATION OF THE PROGRAM PFTA

The program PFTA has organized this Conference within the Emerging Markets International Fair-EMA 1999 in Palexpo, Geneva. We would like to thank Mrs. Isabel MONTERO DE LA CAMARA-Ambassador of Costa Rica in Switzerland, Mr. Edwin JOHNSON-Ambassador of Ecuador in Switzerland, Mr. Ramón TOLEDO-Economic Affairs Counselor of Mexico in Switzerland and Mr. Edward SCHNEIDER-Manager of Latin America Fund/Lloyds International Bank, for their presence in this Conference.

Let me introduce, in general terms our program. PFTA is a program multilateral and pluri-disciplinary, developed within the Exchange and Cooperation Center for Latin America-ECCLA. This institution, is a non-profitable international association, organized corporately and governed by articles 60 and ff of the Swiss Civil Code. Since its origins in 1997, it has its headquarters in Geneva.

In PFTA, you will find private and public institutions willing to carry on commercial and financial activities abroad. It helps identifying potential partners and assists in developing proposals for the desired projects. Those activities are applying in the assistance of import/export, transfer of technology and investments. PFTA allows its members to have access to promotional tools, assists companies to establish contacts with official organizations abroad, and provides a wide range of information on projects and programs developed worldwide (international bids, areas in process of privatization, etc.).

PFTA is an international network of consultants, companies, associations, financial institutions which adjust their know-how to specific projects with a common interest. The correspondents are available in many countries. The services provided in the implementation of projects in all economic sectors can be: identification of potential partners by areas of activity, assistance with different international funds options, management of commercial missions, studies of markets (import/exports, implementation), representation in financial organizations, companies, international organizations, etc.

In the current process of globalization of the economy, PFTA, which has been started their activities between European and Latin American entities, is developing contacts with institutions in Africa as well since 1999. To promote their activities, it participates in special international events and Conferences of international organizations linked to trade and investments.

In EMA 1999, PFTA has chosen 10 projects of companies that it's representing. Sectors are chemistry, food industry, fishing, real estate, gemstones industry, informatics, services. Within PFTA's space, the company CITA presented its own activities. For further information contact us in Geneva or visit our web site: http://www.cecal.ch.

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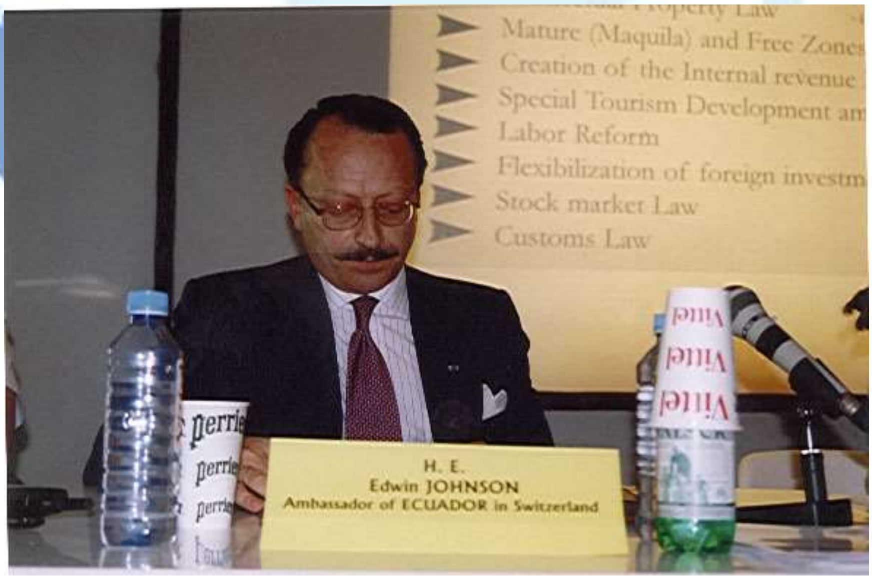
MACROECONOMIC FRAMEWORK AND COMMERCIAL OPPORTUNITIES FOR DOING BUSINESS IN ECUADOR



Address given by the Ambassador of Ecuador in Switzerland, Dr. Edwin JOHNSON, during the Conference "Business Opportunities and Investments in Latin America" organized by PFTA program in the "Emerging Markets International Fair", Palexpo - Geneva, May 28th,1999.

I want to thank *"Partners in Foreign Trade Affairs,* (PFTA) very much for inviting the Ecuadorian Ambassador to Switzerland to speak to you about the new regulations adopted by the Government of Ecuador to facilitate business, investment and commercial opportunities, taking into account the new legal framework.

As everybody knows, during the last two decades Ecuador has proved to have a strong democracy, and shown itself to be a peaceful and stable social environment, with extensive political and legal security. This stability has been an important element in my country's national development. In fact, traditionally, Ecuador does not have any problems with racial, religions or with political discrimination. My country does not have any problem of terrorism or guerilla warfare, violence or drug trafficking, the signing of the Peace Treaty with Peru in October 1998, Ecuador does not have any territorial disputes. In this regard, I would like to quote a very interesting article published in one of the most important newspapers in Latin America, which concludes, "peace must be considered by foreign investors as an economic advantage".

Having said that, I have to state that the current Government, of Dr. Jamil Mahuad, has initiated important structural reforms with a view to modernizing the State and inserting its economy in the new globalized movement. The main objectives that the Ecuadorian Government is following in the field of promoting investments and commercial opportunities are related to transforming the foreign commerce and foreign investments in the main sector, which could reinforce itsdevelopment and generate social wellbeing. The other objective is to increase and diversify its exports, accelerate the process of international integration of its economy and, finally, to provide a positive climate for the national and foreign investments which with support its foreign trade. To obtain these objectives, the Ecuadorian Government has recently introduced the following main reforms:

- Modernization Law
- Tax reform
- Tariff reform
- Promotion and Investment Guarantee Law.
- Intellectual, Property Law
- Maquila (Multure) and Free Zones Law
- Creation of the Internal Revenue Law
- Special Tourism Development amending Law
- Labor Reform
- Flexibilization of foreign investments
- Monetary and Bank Law
- Stock Mark-et Law
- Customs Law

This new legal framework permits Ecuador to prepare itself to participate adequately in the current world economy and trade system, and thereby increase the links with the most developed zones of the world and dynamize its activities within the regional and world organization.

Ecuador is working, in association with the Andean Community, consisting of, Bolivia, Colombia, Peru and Venezuela, on the establishment of a free trade zone. My country has signed Complementary Economic Agreements with several Latin American countries, in order to increase the exchange of merchandise and allow trading facilities between the countries concerned. Such agreements are valid with Argentina, Uruguay, Paraguay, Chile, Brazil and Cuba.

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Ecuador is full member of the Economic Council of the Pacific Basin Organization, and is also taking steps to be incorporated in the rest of the economic forums of the Pacific Basin Organization.

In 1996 Ecuador was accepted as a new member of the World Trade Organization (WFO), which is the new work frame for international economic relations and creates new means of modernizing its foreign trade regime. It also -allows an adequate framework to attract foreign investments, supports export promotion policies, and establishes a positive way to solve commercial disputes between countries.

At the present time, our country, is also actively participating in the negotiations for the establishment of the Free Trade Zone for the Americas (ALCA).

The promotion of Ecuadorian exports has been one of the most important aspects of the of government entities, as it is the export sector, that by creating new jobs, generates new income for the development of Ecuador.

Due to the collapse of international oil prices, Ecuador is currently going through a transitional stage to a non-oil-linked economy. That is why My country wants to develop and diversify other productive areas as mining, tourism, services and the export of non-traditional products.

In the investment sector it is very receptive to foreign capital from the whole world, in accordance with the new "Foreign Trade and Investments Law" in force since December 1997. Foreign Investment has the following guarantees:

- Free transfer abroad of the net profits generated by the investment itself, which are negotiated in freely convertible currencies.
- Free remittance and repatriation of profits obtained from the total or partial liquidation of
    - Enterprises that have made the investment, or from the sale of the shares,
    - Shares or acquired rights arising from the investment made, subject to prior payment of the respective taxes.
- Complete freedom to negotiate investment in the country.
- Freedom to profit from the advantages offered by the Andean Community Liberalization Program (Programa de Liberación de la Comunidad Andina) and from the preferential tariffs given by third countries to Ecuador.
- Free access to the national finance system and stock market, to obtain credit and the development of investment projects.
- Free access to
    - Promotional mechanisms
    - Technical assistance
    - Cooperation and property rights, without limitations other than those established by valid legal arrangements.
    - Free access to tariff markets
    - Tax stability.

This law establishes also the States obligation to look,- after the development of foreign investment in a free and guaranteed way, which is established in the State Constitution, and thus to avoid discriminatory or ,anomalous situations. Such situations could be reported to the Ministry of Foreign Trade, which can take immediate action to correct adverse situations.

It is the duty of public entities to help investors

- to develop feasible technical and economic projects
- to have the necessary information and materials available to permit them to continue with the execution of investment projects.

Finally it is important to emphasize that the law, guarantees total respect by Ecuador for the agreements and treaties for the promotion and reciprocal protection of investments and ant-double taxation treaties. Ecuador has signed and ratified the above with other countries in the framework of its participation in international organizations. My country has already signed this kind of agreements with several European and American countries.

Possible disputes arising between the State and foreign investors could bc submitted to arbitration tribunals specially organized under international agreements to which Ecuador is, Party, or to processes under bilateral or multilateral agreements signed by our country.

As a member of the Andean Community, Ecuador must follow the rules laid down in the subregional context regarding foreign investment.

At the present time Decision 291 of the Cartagena Agreement (la Decisión 291 del Acuerdo de Cartagena), on the Common Regime for Foreign Capital, Patents, Licenses and Royalties, has been in force in Ecuador since May 13,h 1991.

This Decision and its Implementing regulations enacted by Executive Decree N 415 on January 8 h 1993, are part of a legal context that regulates foreign investment and technology transfer in Ecuador.

The most relevant aspects I would like to highlight about Decision 291 are:

- The introduction of the principle of equality of treatment between locals and foreigners.
- The confirmation of the of rights of foreign investors to transfer to foreign countries net profits from foreign investment in freely convertible currency
- The elimination of the prior authorization requirement.
- The elimination of the obligation on foreign enterprises to bc transformed into mixed and national if they desire to benefit from the Andean Community Liberalization Program (Programa de Liberación de la Comunidad Andina).
- The treatment of intangible technology as a capital asset.

As I have mentioned before Ecuador is applying open and liberalized policies for foreign investment and foreign trade, providing real and advantageous conditions for this particular economic activity develop. In this regard the government has considered it indispensable to work together with the public and private sectors in the country in order to achieve the goals of commercial promotion and perception of foreign investment.

In this connections the Ministry of Foreign Affairs recently signed an interinstitutional cooperation agreement with CORPEI (Corporaci6n de Promoción de Exportaciones e Inversiones), a private entity which mainly finances itself from its own resources.

Under this cooperation the government supports such non-traditional export products as:

- To start with: Flowers
- In the Handictaft area:

    - Toquilla straw hats (known as Panama hats),
    - Tagua (vegetable Ivory)
    - Balsa wood
- In the Exotic fruit area:
    - Passion fruit,
    - Melons,
    - Pineapples,
    - Mangoes
- In the Vegetable are:
    - Palm hearts,
    - Asparagus
    - Tree tomato
- In the Fishing area: Shrimps, canned fish and frozen fish
- And finally, canned fruits and vegetables

It does this in the knowledge that my country enjoys the great advantage of year-round production, and so can guarantee availability when other producing countries are unable to supply their products.

The Ecuadorian Government recently started to implement its political strategy aimed at securing Congressional support for its proposed Privatization law. The proposal is to be sent to Congress in June, and will contain several reforms to present legislation, which will facilitate the selling of public companies and utilities to private investors. Jamul Mahuad's Administration believes that present laws are too restrictive and cumbersome and wants Congress to grant the President wider discretionary powers to manage the sale of Government-owned corporations.

The Executive wants to privatize electricity and telecommunications utilities, the oil industry, postal services and ports, among others. The National Modernization Council (**CONAM**) has circulated a preliminary draft of the project, which is being discussed with political leaders from all parties. On Wednesday May 19th, the President presented the blueprint of the law to his cabinet of ministers, and later, to 250 representatives of various public and non-governmental organizations.

Later, the President met with representatives from ail major political parties in an effort to explain and sell his project to Congress. In the meeting, Government officials provided a detailed technical explanation of the project.

The Mahuad Administration strongly believes that investors should be allowed to acquire a controlling majority share in these companies, white others believe that the public sector should retain the majority share even if it is in preferred stock.

<u>Freedom to invest:</u>

Since the beginning of this decade Ecuador has pushed through a series of important legal reforms designed to facilitate trade and investment, in order to attract international financial resources to the national production sector. The aim of the Ecuadorian Government is to channel these resources into projects which will enhance the country's infrastructural base, create new sources of employment and generally inject fresh resources into the national economy in a way that will promote national development. In a short time Ecuador has taken sure steps towards important social and economic modernization goals.

A key element in the process of providing the greater access, deregulation and modernization experienced by Ecuador's economy in recent years has been the promotion of foreign investment. To that end, important changes, both legal and administrative, have been undertaken to encourage new and increased investment. The new legal framework for foreign investment is very flexible, permitting investment in virtually all areas of the economy, with no restrictions and without requiring prior approval; guarantees have been simplified and taxes reduced, and when the 25 % income tax has been paid money can be freely transferred out of the country without being subject to any additional form of taxation.

At the present time, the prospects for development in Ecuador are excellent in a wide variety of economic fields. Investment opportunities in a number of areas are attractive, including oil, mining, telecommunications, energy production, fishing, tourism agro-industry, highways, pharmaceutical products and finance. In addition, in order to facilitate the process of privatization and the removal of Government participation in these areas, a number of laws have been passed, particularly the Privatization and Provision of Services Law, the objectives of which are follows:

- to increase investment
- to improve the efficiency of business previously in state hands and
- to increase employment levels

In addition, the Ecuadorian Government is engaged in the negotiation of bilateral agreements to protect and encourage investment Agreements have already been signed with:

Switzerland, France, Germany, the United Kingdom, Russia, Spain, the United States, Argentina, Bolivia, Canada, Chile, Cuba, El Salvador, Paraguay, Venezuela, Uruguay, China.

Under these agreements, Ecuador ensures the equitable, just and effective treatment of foreign investors, what at the same time establishing clear and precise mules for the repatriation of investments and profits, the settlement of disputes, compensation in the case of expropriation and other such issues.

I will be more than happy if 1 can generate an interest in the benefits that you and your enterprises could gain from doing business in Ecuador..

Finally, if you have specific inquiries or requests, please contact the Embassy of Ecuador.

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DOING BUSINESS IN MEXICO

Address given by the Economic Counsellor of Mexico in Switzerland, Lic. Ramón Toledo, during the Conference "Business Opportunities and Investments in Latin America" organized by the program PFTA in the "Emerging Markets International Fair", Palexpo- Geneva, May 28th,1999.

I want to thank "Partners in Foreign Trade Affairs", (PFTA) very much for inviting the Mexican Embassy at this Conference. His Excellence, Ambassador Enrique LOAEZA TOVAR, apologizes for not being present today due to others commitments abroad.

However, as Economic Counsellor of the Mexican Embassy, I have the pleasure to do the following presentation about "Doing Business in Mexico" for you today.

I. LEGAL FRAMEWORK FOR FOREIGN INVESTMENTS IN MEXICO

The Foreign Investment Act sets forth that foreign investments may share in any capital stock of Mexican corporations; purchase all kinds of fixed assets; get involved in new fields of economic activity or manufacture new lines of products; open and operate new business establishments and expand and relocate those already existing, except for reserved or specific regulated activities.

In most economic activities (1), foreign investors may own up to 100% of stocks in any company incorporated in Mexico.

This principle does not apply in a restricted number of activities. These activities may be reserved to the Government, to Mexican nationals or corporations incorporated under a foreigner-exclusion clause, or in the case of limitations to foreign capital majority interest (see Exhibit on Chapter I).

When total fixed assets of a new corporation are worth more than 85 million new pesos (2) , (about 13.32 million US dollars (3)) approval by the National Commission on Foreign Investments (NCFI) is required. Approval is also required when a foreign investor wishes to own more than 50% of the capital stock of companies with a line of business included in any of the eleven activities listed at the end of the Exhibit on Chapter I.

An application for approval by NCFI is quite expedient. In fact, if no response is given within 45 working days, the project is automatically approved.

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(1) 93.8% of all 754 economic activities making the Mexican economy, according to the National Statistics, Geography and Informatics Institute (INEGI).

(2) This amount is applicable to 1994 and will be reviewed on a yearly basis.

(3) New pesos were converted to dollars at a N$6.38 per US $1.00 rate which was the exchange rate in force on August 30, 1995 and it is the one used throughout the document.

Tax System

Corporate tax is 34%. This is a favorable rate as it is lower than that in the United States, Canada, the United Kingdom, Germany and Japan, as well as those in some developing countries which have been quite successful in attracting foreign capital (Philippines and Indonesia)(1) (See Exhibit on Chapter II).

Companies engaged in services for agriculture, stock breeding, forestry, and fishing are exempt of such taxes, provided their profits are reinvested.

In Mexico, companies are subject to a 1.8% tax on the average yearly value of their fixed and financial assets (2) . This tax is only applicable when the resulting amount exceeds the regular income tax due, in which case only the corresponding difference is paid.

This tax is mandatory only after the third year of operations. Also, companies with losses in any given period may reduce their asset tax considering any income taxes paid during the three previous years, or they may deduct it from the following year's income taxes.

Dividend distribution is not subject to the corresponding tax provided corporate tax on profits has been previously paid.

Payments related to royalties for technical assistance, patents, trade names, and trademarks are all subject to taxes ranging from 15% to 35%. The rate on interest paid ranges between 10% and 35%.These taxes, however, may be deducted by the company when computing the corresponding income taxes, provided evidence is produced that those payments are related to the company's normal activities.

The rate applicable to the value added tax is generally 15%. Some major exceptions apply, namely exports of goods and services and the sale of basic staples and drugs. In this case, the rate is zero.

State and municipal taxes are also applicable. Payroll taxes are paid in 18 states ranging from a low 0.9% in Baja California to a high 4.6% in Quintana Roo. Another major state and municipal tax is the property tax imposed on the use of soil, based on the property appraised value. The annual state tax for urban land ranges between 0.001 and 0.04 per thousand new pesos, depending on the state where the property is located.

The Mexican Government has enforced a very active policy on agreements to prevent double taxation. Today, agreements of this nature are in effect with the United States, France, Sweden, Canada, Switzerland, Spain, Italy, Great Britain, Northern Ireland, The Netherlands, Singapore and South Korea. Other similar agreements with Germany, Belgium and Ecuador will become effective this year.

These agreements essentially involve tax credits in those countries where foreign investment is originated for taxes paid in Mexico on salaries and service fees, profits, dividends, royalties, and interest paid on loans.

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(1) For the United States, an average combination of federal, state and local corporate taxes is applied. For Canada, federal and provincial taxes are combined.

(2) There is a tax deduction applicable to liabilities with Mexican based companies that do not qualify for the asset tax exemption.

Foreign Exchange Policy

In 1995, Mexico adopted a floating exchange rate. This means currencies may rise or drop according to foreign currency supply and demand without any intervention by the Central Bank (Banco de México).

There are no restrictions on profit, royalty, dividend, interest payment, and capital repatriation. Also, companies may open checking and deposit accounts in US dollars anywhere in the country, subject to a minimum opening fee requirement as determined by commercial banks. Individuals may have checking accounts in US dollars in towns along the Northern border.

Trade Policy

Trade policy is based on tariff schemes. At present, only 149 of 11,065 items are subject to prior import permits issued by the Secretariat of Commerce and Industrial Development. The maximum tariff level is 20% ad valorem, with a weighted 11.3% average for all goods imported.

On the other hand, and as part of a strategy to diversify trade, the Mexican Government entered the following Trade Treaties and Agreements in 1994 and 1995:

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On January 1, 1994, the North American Free Trade Agreement (NAFTA) with the United States and Canada became effective. This means quotas and duties on non-oil Mexican exports will be fully eliminated within a 15 year term (See Exhibit on Chapter III). Beginning 1994, tariffs have been eliminated on 84% of all non-oil and non-agricultural and stock-breeding exports to the United States and 79% of these exports to Canada.

The Economic Complementation Agreement entered with Chile contemplates a wide and accelerated tariff exemption and elimination of non-tariff barriers. In 1996, tariffs will be eliminated from 94% of all items, including automobile goods and their parts. In 1998 an additional 2.9% will benefit from these exemptions, so that the elimination of tariffs on all goods and services included in the Agreement will be complete.

On January 1, 1995, the Free Trade Agreement with Costa Rica became effective. It eliminated 70% of tariffs and duties on Mexican exports. An additional 15% will be eliminated within 5 years and the remaining 10%, in ten years.

The Free Trade Agreement entered with Colombia and Venezuela anticipates a gradual ten year tariff elimination scheme for industrial products beginning 1995. The Venezuelan automotive sector will be tariff exempted by January, 2007 and textiles will be temporarily excluded from this program. The Agreement also provides for the immediate elimination of tariffs on 40% of Mexican exports to Colombia and on 7% of sales to Venezuela.

The Free Trade Agreement between Mexico and Bolivia became effective on January 1, 1995. It contemplates an immediate tax exemption on 97% of Mexican exports. Taxes on textiles and agricultural produce will be gradually eliminated within the next four to fifteen years. The automobile industry will experience a gradual removal of tariffs which will be completed by the year 2002.

In addition, non-oil exports are favored by existing preferential schemes across the European Union, Japan, Norway, Switzerland, Australia, and New Zealand. These countries allow access to a large number of Mexican goods with tariffs lower than those applied to other countries, provided local content requirements are met.

Labor Legislation

The Law provides a maximum 48 hour work week. Day shifts are eight hours long while night shifts are seven hours long. However, companies usually work between 40 and 45 hours per week (see Exhibit on Chapter IV).

Overtime is allowed for twice or three times the regular hourly wages, depending on the corresponding number of hours worked. Double wages are paid for nine hours per week (three hours per day, three times a week) and any additional overtime is paid three times the regular hourly wages. Triple wages are also paid when working on any of the seven legal holidays.

After continuously working for one year, employees are entitled to no less than six working days of paid vacation. This vacation period will increase two days up to a maximum twelve days for each additional year of work. After the fourth year, the vacation period will increase by two days for each five years of work. Also, workers will be paid an additional 25% of their normal daily wages as vacation premium.

Severance compensation is payable at a rate of three monthly wages plus 20 days for each year of service with the company.

With voluntary resignations, the company is only liable for a proportional part of vacation premium and the corresponding Christmas bonus. However, if the employee had continuously worked for more than 15 years, the severance settlement will be increased by twelve days of the last monthly wages paid, for each year of work with the company.

Workers' income is established under agreements regulated by the Federal Labor Law.

The two types of agreements are the Collective Labor Contract agreed upon by the company and union, and the Individual Labor Contract directly agreed upon by the employee and the employer.

The Law provides for a yearly review of salaries wich cannot be lower than the legally established minimum wage(1) .

Mandatory social benefits are contributions to the social security system (IMSS), the housing fund (INFONAVIT) and the retirement savings system (SAR), as well as payments for vacation premiums, vacations and Christmas bonuses. On average, the cost of these benefits accounts for 29% of paid salaries.

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(1) Minimum wages are set by the National Minimum Wage Commission, an agency made of business associations, and union and Government representatives. Minimum wages are reviewed every year even if more frequent reviews are possible with relatively high inflation rates.

Immigration Issues

To facilitate the residence of foreign investors, officials and technicians in Mexico, involved in industrial, financial, technological, and other economic activities, the authorities in Mexican consulates abroad are empowered to issue the corresponding visas.

Citizens of the countries listed in the Exhibit on Chapter V may stay in the country for a maximum period of 30 days by producing the FMVC immigration form, free of charge.

This form is extended to "business people", "directors", "technicians" and "personnel transferred". The characteristics and requirements of each visa are as follows:

A. Business people :

To negotiate or sign business contracts, check on their performance, look for investment alternatives, or otherwise invest in the country directly.

B. Directors :

To attend meetings of the board of directors of companies legally incorporated in Mexico as appointed by the stockholders' meeting.

C. Technicians :

To provide specialized services previously agreed upon or contemplated by technology transfer, patent and trademark agreements, machinery and equipment purchase contracts, technical training or any other contracts related to the production process in a company incorporated in Mexico.

D. Transferred Personnel :

Foreigners hired by any parent company, subsidiary or affiliate aiming to perform managerial, executive or consulting duties in a Mexican company or who provide specialized knowledge on the activities of such company.

The requirements for the FMVC form are:

1 A letter in Spanish from the parent company stating the reason for the staff to stay in the Country.

2. Evidence of the appointment as director.

3. A letter of invitation issued by the company, professional chamber or public agency stating the reason for the person to enter the Country.

Before the 30 day term is over, visitors who need longer stays may apply for an FM3 non-immigrant visitor form, issued by the National Immigration Institute. The FM3 form authorizes the performance of uncompensated activities in the country for up to one year, to be renewed subject to payment of the corresponding duties. Travelers of the countries not listed in the exhibit shall apply for this immigration form.

In the case of the North American Free Trade Agreement, temporary stay of businessmen involves the following categories: business visitors, merchants, investor visitors, and personnel and professionals transferred. For these, a businessman immigration form (FMN) is required and it may be directly obtained from Mexican consulates in Canada and the United States of America and travel agencies, airlines and immigration personnel in every port of entry in Mexico.

II. PROTECTION OF TECHNOLOGY INNOVATION AND TRADEMARKS

Patents, trademarks, brands, and industrial designs, models and ads are protected under the Law of Development and Protection of Industrial Property.

Processes and products may be patented for no more than 20 years except for patents on chemical or other drugs which may be extended for an additional three years, provided the patentee licenses any company with a majority Mexican stock for the use of that patent.

Industrial designs may be registered for a 15 year period while models may be registered for 10 years. These periods may not be extended. On the other hand, trademarks or ads may be registered for a 10 year period which may be renewed for equal term periods. The right to the exclusive use of a trade name for an industrial, commercial or service establishment is protected for ten years.

Mexico's new Copyright Law provides increased protection to meet international standards. Producers of sound recordings are now protected for 50 years from distribution of unauthorized copies. Also, computer software programs are granted the same protection as literary works, for the author's lifetime plus 50 years.

In all cases, the Mexican Intellectual Property Institute is the agency authorized to issue the registrations.

Steps to Incorporate a Legal Corporation with Foreign Investment in Mexico

As stated in Chapter I, there is a discretionary authorization by NCFI.

The following chart shows the procedures required to incorporate a company in Mexico either with the authorization of NCFI or if automatically approved.

About 133 working days are required to meet all the steps described in the flow chart. If no NCFI authorization is necessary, the procedure may be faster since approval may take some 45 working days (see Exhibit on Chapter VI). However, the company may take the necessary actions for leasing, installing telephone lines, hiring personnel, and opening checking accounts as soon as it has been incorporated before a notary public. This requires about 25 working days.

The Most Common Legal Corporations

There are six types of different companies: corporations, limited-liability companies, general partnerships, limited partnerships, joint stock companies, and cooperative associations.

The most common type of company among foreign investors is the corporation with its two variants (fixed capital and variable capital). The main characteristics of these corporations are that partner liabilities are limited to the payment of their stock.

•To have no less than two partners, each underwriting at least one share.

•To produce cash for no less than 20% of the share par value.

•Capital investment must be at least N$ 50,000 (7,837.00 US dollars).

The basic difference between both kinds of corporations is that a corporation with a variable capital is allowed to make changes to any variable portion of the capital stock by simply calling a regular stockholders' meeting and without the need for changes when filing documents with the Public Registry for Property and Commerce.

Neutral Investments and Trust Funds

Under the Law, foreign investors face some restrictions in certain activities which may be reserved to Mexican nationals or to companies incorporated under a foreigner exclusion clause, or have a limit to maximum ownership in the company's capital stock.

Investing in "neutral stocks", which provides the holder with pecuniary benefits but no voting rights, allows to overcome the above restrictions. Such an investment can be directly made in Mexican corporations or through trust funds, previously approved by the Secretariat of Foreign Affairs and, when applicable, by the National Securities Commission (1).

A trust fund allows the beneficiary to use and control ownership of certain assets, although he/she may not hold title to those assets.

A. Real Estate Trust Fund

Under the Foreign Investment Law, a trust fund is needed only to purchase property allocated for housing, in a 100 km strip along the borders and a 50 km strip on the shoreline. Consequently, foreigners may now own fixed assets in those areas when conducting industrial, commercial and tourism activities, including construction, leasing and operation of parks, industrial bays and warehouses, hotels, resorts, shopping malls, bars, and restaurants.

The original term is for 50 years. It may be indefinitely renewed for equal term periods.

B. Neutral Investment Trust Fund in Financial Holding Companies, Multibanking Institutions, and Stock Brokers.

Under the Law, a foreign investor may own over 30% of shares in the capital stock of stock broker firms, financial holding companies and multibanking institutions with prior approval by the Secretariat of Treasury and Public Credit and the National Securities Commission. This ownership could be achieved by purchasing common stock certificates issued by fiduciary institutions.

Institutions in charge of managing trust funds are banks based in Mexico.

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(1) Approval by the National Securities Commission is required for companies listed in the Mexican Stock Exchange.

Investment Incentives

The main incentives are duty free importation of inputs, machinery and equipment used to produce goods for exports; the possibility for immediate depreciation of fixed assets; the opportunity to purchase land in some states; and access to venture capital schemes provided by development banks.

A. Export Development Programs

1. In Bond (Maquiladora) Industry

Benefits

Companies covered by this program may import raw materials, containers and packaging materials, fuel, spare parts, machinery and equipment to produce their goods, without paying duties or value added tax.

Requirements

Goods produced must be for export only.

2. Temporary Importation to Manufacture Export Goods (Pitex)

Benefits

Raw materials, containers, packaging materials, fuel, spare parts, machinery and equipment may be imported without paying duties or value added tax.

Requirements

To be engaged in the production of non-oil goods and to directly or indirectly export the following, depending on the materials imported.

A minimum 10% of foreign sales or an amount equivalent to 500,000 US dollars per year, to be able to import raw materials used in exported goods under the above terms.

A minimum 30% of sales must be allocated for exports in order to benefit from the corresponding tax exemption on machinery and equipment imports.

3. Import Duty Draw-back

Benefits

Refund of import duties paid on imported raw materials used to produce goods for sale abroad or required by the exporting companies.

Requirements

Submit the corresponding application no later than one year after having imported the raw materials and within no more than 90 working days after having exported the goods.

For indirect exporters, documentation of exports issued by a maquiladora company, PITEX and/or any Foreign Trade Company. The term will be counted from the day of document issuance.

B. Immediate Investment Depreciation

During the first or second year of operations, companies may choose a one-time depreciation deduction for their fixed assets instead of a deduction over the life of each asset.

This option excludes, except for investments in industrial bays, companies located in Mexico City and surrounding areas, Guadalajara and Monterrey. Purchased automobiles, transportation and office equipment (not including computer equipment and devices) are also excluded.

The immediate depreciation rate for industrial bays is 62%. For machinery and equipment the rate ranges between 62% and 100%, depending on the sector (see Exhibit on Chapter VII).

C. Fiscal Measures

1. Job Creation

Companies which hire more workers in 1996 than the average level recorded for the first ten months of 1995 will obtain a tax credit for the new jobs which may be used against income or asset taxes.

Fiscal measures will also be implemented to encourage the creation of new jobs in the automobile industry and related sectors.

2. Investment Increases

Companies investing in 1996 more than during the first ten months of 1995 will be permitted to deduct from their tax burden for 1996 up to 100% of the difference between the two amounts.

3. Financial Statements

Companies which present their financial statements for certification will be able to deduct their income tax from other taxes.

D. Venture Capital Programs of Development Banks

The Mexican Bank for Foreign Trade (Bancomext) and Nacional Financiera may participate on a temporary basis, and with a minority ownership, in investment projects of foreign companies.

Once the project is in full progress, the corresponding development bank withdraws from the partnership and sells its stocks at a price agreed upon on the initial contract, to the charter partners or to others.

Bancomext provides venture capital resources mainly for foreign currency generating projects.

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E. State Incentives

To bring in foreign investments, some state governments may grant reduced pricing on land owned by them, depending on the benefits expected.

Also, some states offer to contribute to payroll expenses during labor training periods.

Geneva, May 28th, 1999