

*POR SERGIO RANGEL*

*MANAGING INTELLECTUAL PROPERTY, SPECIAL FOCUS: ANTI-COUNTERFEITING, MAY 2010*

As a result of the global economic recession, many IP owners have reduced their budgets for anti-counterfeiting campaigns. Scaling back enforcement to the most sensitive jurisdictions, eliminating intelligence and investigative actions, and hiring unknown firms in the belief that they will be able to do the job on the cheap are all strategies that companies are using to keep down their costs.

However, it is important to consider the long-term consequences. Times of economic crisis are often accompanied by a rise in the production and traffic of counterfeits. When people have less money it usually creates a favourable environment for cheap alternatives, and given that counterfeits are made with the cheapest ingredients fake goods inevitably become more popular. Likewise, some unscrupulous store owners exchange original products for counterfeit versions in their retail stores to cheat consumers and make more money. Both illegal activities present serious risks to IP owners, not only in terms of sales but also in the reputation of the company and its trade marks. Investing in anti-counterfeiting campaigns in spite of the economic crisis will permit rights holders to keep the phenomenon under reasonable limits and avoid the damage that could result if the illegal market grows beyond control.

*BORDER MEASURES*

Since early 2008, Mexican Customs initiated strategies to stop fake goods at the point of entry into Mexico. Border measures are an efficient strategy to fight counterfeits and secure their detention in a cost/benefit analysis. However, until now, Mexican law has not directly empowered Customs officials to stop the import or export of suspicious or counterfeit goods. The officials can detain allegedly counterfeit goods only through an order issued by a Federal Court, the Mexican Institute of Industrial Property (IMPI) or the Attorney General's Office. Recently the Mexican Internal Revenue Service issued internal rules regarding the procedures to be followed by Customs officials when goods believed to be counterfeits are detected. However, several amendments are still pending, including a number of changes that are vital to assure the continuity of the early alert anti-counterfeiting system despite the goodwill and interest in fighting

counterfeits of key Customs officials.

Notwithstanding the above, by now the early alert anti-counterfeiting system is working with reasonable efficiency, based on a dual process that includes an analysis of a database of registered trade marks maintained by the Institute of Industrial Property and a preliminary database developed by the deputy's office in the Customs headquarters. Together these facilitate the identification of distinctive signs and provide contact information for the owners of the trade marks and their attorneys. In mid-2009, the database was expanded with the inclusion of technical information about sensitive products, including licensees, main ports of entry, names of commonly used Customs brokers, and the usual countries where authentic goods are manufactured.

Finally, note that the intervention of Mexican Customs is essential not only in the enforcement of IP rights in Mexico but also more widely in Latin America. This is because Mexican sea ports and airports are often used by counterfeiters to distribute illegal goods originating from Asia and destined for markets in Central and South America. An increase in the effectiveness of Mexican Customs will lead to positive results in the rest of the Americas too.

#### *CRIMINAL ENFORCEMENT*

An effective anti-counterfeiting campaign cannot be focused only on border measures.

The Attorney General's Office is appointed by law to investigate alleged IP felonies with the support of the Federal Investigative Police.

Choosing criminal actions to tackle counterfeiting is a smart option since the federal prosecutor has sufficient author authority to use force during raids against counterfeiters. However, the raids must be supported by a suitable search warrant provided by the Federal Court.

Including raids in an anti-counterfeiting campaign is strongly recommended. It is possible that the amount of goods seized during a raid conducted by a federal prosecutor with the support of the federal police will not be as impressive as the quantities of goods stopped by Customs. Nevertheless, a properly planned

raid can bring excellent results depending on the actions of the IP owner.

The raid can be tailored to obtain maximum returns on the investment in time and resources. Raids result in strong messages to the counterfeiters about the non-tolerance of IP infringements.

If the Mexican market is the target of the IP rights holder, recall that the Attorney General's Office can intervene only in cases regarding falsification of goods.

On April 6 2010, the Mexican House of Representatives passed a relevant amendment to the Industrial Property Law and to the Federal Penal Code, previously approved by the Mexican Senate regarding piracy and counterfeiting. This was primarily to meet the demands of the Office of the United States Trade Representative and thereby remove Mexico from the USTR Watch List.

The Special 301 Report issued by the US government agency stated: "The United States also urges Mexico to strengthen its IPR regime by enacting legislation to: provide *ex officio* authority to law enforcement and customs authorities ...".

However, enforcement of piracy and counterfeiting had a prerequisite, which was the filing of a *sui generis* criminal complaint (called a *querella*). A *querella* is a private criminal complaint filed by the owner of an infringed IP right to protect them against unauthorised copycats.

Without the *querella*, the federal prosecutor lacked the authority to enforce IP rights. The law foresaw that the best person to initiate an enforcement action was the person with a direct interest in protecting the referred private rights, i.e. the IP rights holder or a licensee.

The IP owner who files a *querella* also has the right to withdraw it. Therefore the complainant has control of the progress of the penal procedure until sentence is handed down. Likewise, he or she has the power to conclude the process by filing a pardon.

Following the amendment, the following felonies will be enforced *ex officio*:

- Piracy
- Retail or wholesale sales and distribution of counterfeit goods done only in public areas.

Felonies perpetrated through the manufacture, storage and commercialisation of counterfeits in private estates, where a search warrant is required to raid, or in the case of border measures, the Industrial Property Law still requires a querella.

It is relevant to note:

- All type of crimes against copyright will be enforced *ex officio*.
- Despite the *ex officio* actions, is foreseen that IP right holders will still be required to have investigative teams to file criminal complaints.
- Where the felonies are enforced *ex officio*, settlement agreements will not be allowed by law. It will not be possible to refund anti-piracy campaigns with monies recovered as damages.
- It is not clear how the enforcement agencies will know which produce is authentic, which is counterfeit and which is a parallel import. Thus, IP rights holders with licensees in Mexico should remain ready to support them to resolve *ex officio* seizures that may include licensed products.

Despite the amendment to the law, we advise IP owners to retain the services of a reputed firm to maintain contact with the Attorney General's Office and support it in targeting pirates and counterfeiters efficiently.

The amendment is now in the Office of the President of Mexico awaiting promulgation and this is expected to happen within a short period of time.

Regarding actions that require a querrela, the raid after the filing of a criminal complaint may take place anytime between 15 and 90 days, depending on the premises to be searched and their distance from Mexico City.

IP owners should take into account that after a seizure ordered by the federal prosecutor, the seized goods are stored in government warehouses while further inquiries are made. Once an official expert issues an appraisal stating that the seized goods are counterfeits, the Attorney General's Office can order the destruction of the goods.

#### *ADMINISTRATIVE ENFORCEMENT*

Since many IP firms lack experience in enforcing rights through criminal actions, their clients will need to carry out enforcement actions via the Mexican Institute of Industrial Property. The Institute has the legal authority to enforce not only the Industrial Property Law but also the Copyrights Law when infringements of copyright take place. However, it is necessary to keep in mind that the Institute can intervene only when the infringement occurs on a commercial scale. Both the industrial property and copyright laws state that the agency may act as an administrative court to hear cases about counterfeiting of trade marks but also other matters as piracy, unfair competence regarding the use of IP rights, use of similar trade marks in the market, and invasion of patented technologies. The Institute is empowered to conduct administrative searches in the premises where it is alleged that the commission of infringements of IP rights took place. However, this agency does not have the power (unlike the Attorney General's Office) to force entry, and can only fine the person or entity that refuses to be searched.

It is important to keep in mind that although the law authorizes the intervention of the Institute in enforcement activities *ex officio*, in practice the Institute only responds to administrative complaints.

Where preliminary measures are requested (for example, seizures, restraining orders or border measures), the IP rights holder must file a bond. They are also required to provide and maintain a safe warehouse for the storage of the seized goods throughout the proceedings until the final administrative decision authorising the destruction of the goods.

The Institute usually grants preliminary injunctions swiftly — on average, 30 working days elapse between the filing of the administrative complaint and the search. However, sometimes it is possible to obtain the administrative search order before this time, when the master requires it. It can take between eight and 18 months for the Institute to issue an administrative decision in the majority of cases. However, the timing depends on the enforcement department's backlog and the complexity of the case.

Regarding border measures, the Institute will, in most cases, issue a suspension order to prevent the circulation of imported goods within 24 hours of receiving the formal request, and they may be executed the day after filing of the petition.

#### *ONLINE ENFORCEMENT*

Another enforcement strategy that should not be overlooked is the online strategy. However, only a small number of IP firms in Mexico have developed good experience in this area. Since no specific regulations apply to enforce the law against counterfeits being sold online, IP rights holders are required to use the remedies outlined above.

In certain cases, when the infringements are related to online auction services, IP rights holders have the option to approach the administrators of the websites requesting the cancellation of the infringing auctions. Fortunately, the reputed online auction services usually have policies that ban the auctions of counterfeits, as well as anti-counterfeiting procedures to remove fake goods and sanction their sellers.

## *EDUCATION*

IP owners are recommended to ring fence part of their budget for education campaigns. They should also consider joining a business or industry association that is involved in education activities as a way of reducing costs. Hosting seminars with enforcement officials from the Institute of Industrial Property, police and Customs will help to engage and educate them about trade marks to be watched as well as facilitating the exchange of intelligence information and the detection and detention of suspicious goods.

Outsourcing these activities to a law firm may be cheaper and more effective because IP owners will be able to share costs with other rights owners participating in the training sessions. This should also ensure that enforcement officers hear one coherent message. Using firms familiar with the portfolio of the rights owner is highly advisable. However, it is also important to confirm that the firm has personnel experienced in training enforcement officers.

## *WEIGHING UP THE APPROACHES*

If the goal is to have a successful anti-counterfeiting campaign, it is necessary to have a broad and long-term view. Focusing watch and enforcement work in only one problem area may result in undesirable results and lead to frustration. We highly recommend that rights owners consult specialists within a firm with a good reputation for IP matters. Most of reputed firms are able to design a tailored campaign to fit different budgets. The specialist will be able to provide not only a thorough analysis of the situation but also a complete portfolio of remedies to be used.