

LATIN AMERICA HAS LONG BEEN AN ATTRACTIVE MARKET IN WHICH TO DO BUSINESS. BUT WITH HIGH LEVELS OF COUNTERFEITING AND PIRACY CONTINUING TO AFFECT THE REGION, HOW SHOULD IP OWNERS RESPOND? MIP, TOGETHER WITH CAVELIER ABOGADOS, OBLIGADO & CIA AND OLIVARES & CIA, INVITED IN-HOUSE COUNSEL, IP OFFICIALS AND REPRESENTATIVES FROM INDUSTRY LOBBY GROUPS TO DISCUSS ENFORCEMENT ISSUES ACROSS THE CONTINENT

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SM: Can you describe what you see in terms of the escalating problems of counterfeit and piracy? Can I ask you, Juan, to start this off as you are based in Latin America.

JA: Counterfeiting and piracy is a widespread problem – specifically referring to Argentina. Basically, we are seeing counterfeit goods fairly easily. The problem is – it probably depends on the area – it is not that you can find counterfeit goods on the streets. Perhaps there are some known black markets there, which are recognized by industry practitioners as a focus of the problem.

EF: The situation in Colombia is quite similar. There are a lot of counterfeit products that you can find on the street, and there is also the black market where you can find counterfeits and smuggled goods in several main cities of Colombia, especially in Bogotá.

LS: The problem is already severe and levels of counterfeiting and piracy are high enough. Counterfeiting has developed as an industry in the region with mafias that have taken control, sometimes working in coalition with governments, in the distribution of products that are mainly produced abroad.

For example, Mexico is viewed as the number three counterfeiting market in the world. Escalating would just represent that the country jumps into number two or one, by replacing Russia and China. Is that a goal to achieve?

AI: Let me just add that there are several Latin American countries that have free trade agreements with the US or have been negotiating free trade agreements with the US. But, my perception of the problem is that it is up in every country, which includes Chile, Peru, the Dominican Republic, Mexico and Guatemala. I have seen different degrees of these problems in several countries. For example, I went to the Dominican Republic earlier this year and I was told that the problem wasn't as serious as two years ago. And all of sudden it has escalated. For example, CDs in the tourist areas and counterfeit and pirated goods are becoming more and more easily available. So, that has been my experience – the countries are trying to address the problems in different ways, but I think with limited success.

KP: We also see an escalation and it's interesting because I think when a lot of people think about counterfeiting, they think of consumer products, DVDs, T-shirts and caps and things of that sort. But what we are seeing is that there is counterfeiting increasing in Latin America of things like circuit breakers and component parts for use in electrical goods, things of that sort which aren't the kinds of things you think of someone coming up to your car and offering you through the window.

CI: I think Kathryn's point on the breadth of products that we see now counterfeited around the world is important. What you are seeing are very sophisticated products marketed around the world that are being produced and delivered into global supply chains, like very sophisticated organizations. I think another trend that we are seeing is the sophistication of the criminal organizations. They can rival some of the biggest and probably some of the best companies in the world. And they are not confined to just one product either. They can be in the business of entertainment or apparel one day and then circuit breakers or aircraft parts, brake pads, or some other products in pretty

short order. They chase the profit margin and they chase the demand. Unfortunately I think there is a lack of global enforcement. So this is a relatively low risk, high profit criminal activity to be in.

AI: Let me just add to the point on the problem that this is not limited to entertainment groups or to software groups, but also includes industrial parts and pharmaceutical products. These are all products that endanger the welfare of the consumer and that appears to be an increasing problem in some of the countries and people are not aware that many times they are selling fake products that could harm their health. Countries have to work more to create awareness of the risk associated with dealing with counterfeit goods.

SM: *Chris, the US government has been undertaking a number of measures to help IP owners – including sending IP attachés to some counterfeiting hot spots. So, why is there such a lack of enforcement?*

CI: To some extent it's an infrastructure problem that probably needs to be looked at under the same lines as other big infrastructure problems in developing countries and developed countries around the world. It's an integration of the private sector where you have got to have companies working with law enforcement at a local level and a national level. There is a Customs dynamic there. There is a cross-border dynamic to this with Operation Jupiter. I am not trying to hide the complexity of the challenge and certainly governments are up to this challenge – we have to be. But you know, it does require a lot of organization, it requires resources that sometimes aren't always there being dedicated to the problem and as everyone here has pointed out, the problem is just getting bigger and it's just accelerating. So, we are in a situation where we are trying to keep up and we are trying to hold our ground.

NM: I think a lot of it is resources. We see that this is a very sophisticated web of, in some ways, interlocking criminal enterprises. Yet we are still treating it like it's a formal trade mark or copyright infringement. So we are facing the greatest, the wealthiest and most organized and sophisticated criminals of all time in a very fragmented way and I think the exciting thing that is happening now is that many companies, many trade associations, many governments are trying to wake up to this fact. But what we are going to have to do is start bringing money to the table. So, developing countries in particular need some resources to fight the problem in an appropriate manner.

AI: I have observed – or have been informed – that in some countries in Latin

America the law enforcement finds a bottle neck when the cases are transferred to the courts. The judicial system are either not prosecuting them in an expedient way or do not understand the cases or see the cases as matters of victimless crimes and impose very small penalties, both in terms of damages or even in terms of imprisoning in criminal cases that do not have a deterrent effect. I think there is the problem at the local court level and I am wondering if the participants from Argentina and Colombia are observing the same thing in their country.

EF: Yes, we find that the judges are not very well prepared when there is a case of infringement. And it was not so long ago when DVDs, for instance, were seized by the police and afterwards they went missing. Nobody knows where they went. I think the total was 50,000 pirated DVDs that went missing. The judges don't know how to handle these kinds of matters. Now there is a new criminal court and fines have been increased and jail sentences have gone up from four to eight years. That was implemented at the beginning of this year. But no judge has imposed this penalty yet. So, I think that the judges must learn a lot – they have to be well prepared and they must understand the problem that's behind this because they are not accustomed to these matters.

JA: I think that the budget that private companies dedicate to IP enforcement is an issue because my idea and – and probably the participants from US companies can confirm this – is that the lack of efficiencies sometimes lead to no enforcement. Because enforcement efforts are rather expensive, particularly when there is no resolution in sight. So that combined with the lack of public and official awareness of the counterfeit problem leads to a very slow solution. Imagine for a moment that we do have some sort of legal framework to address counterfeits. But sometimes we see a lack of political will to consider the issue.

KP: I wanted to pick up on two things Juan just said. The first was on when you spend a lot of money and you don't get a lot of results. Others have spoken about the bottleneck and some of the court systems and that's certainly been my experience. In many instances where business are prepared to start initiating a series of legal actions in this never never land where things don't seem to move forward, it's very frustrating. And when they are doing their budget that is one distinctive. Often I will say that the cost of keeping things in storage or sort of waiting for the case to proceed can end up our weighing the

cost of doing the initial action. This can end up being more expensive than just having purchased all the goods outright in the first instance. So it is a real problem. The other point I would like to pick up on is education, because in thinking for many years about counterfeiting it seems it's not just to adapt the good laws – it's not even enough to have a really effective enforcement system. We really need the education component both for consumers to understand that buying counterfeit goods is not in their own best interest, it's not an entitlement just to get cheaper goods. It really does have detrimental effects both to their person potentially, but also to the state of the world, the ties with organized crime – the ties potentially with terrorism. It seems to me we as a group of stakeholders need to be very interested in furthering education and I think that's something organizations like yours can do probably effectively with the help of your members. But I also think the educational effort has to filter through the law enforcement officers and the judiciary as to why this isn't a victimless crime. And there is a lot more the IP community can be doing in that regard in Latin America and probably around the world.

LS: There is a large lack of enforcement despite the efforts, because they are only made on the surface or in isolation. Counterfeiting is a problem in itself but is at the same time connected to other social disorders: poverty, lack of education, corruption and organized crime. Eliminating counterfeiting would require tackling dysfunctions as a whole.

MR: In addition to the lack of sufficient numbers of enforcement personnel, many Latin American countries probably lack sufficient experts to detect infringing products. With so many categories falling within the broad IP heading, such as computer software, electronics hardware, communications hardware and software, celebrity personality rights, trade marks, and copyright (itself made up of several subcategories), most enforcement agencies would be hard-pressed to include experts on their staffs in more than a few of these areas.

SM: How aware are Latin Americans that counterfeiting and piracy is damaging the economy?

LS: My impression is generally they are not very aware that it is damaging to the economy. They still see it very much as a victimless crime. I think that foreign investors or even local investors are going to be very concerned about the investments they make. Whatever IP they produce in the country is going to be pirated. And I have seen that happen in the pharmaceuticals industry. In a way

it's not worked for us to introduce a new medicine here, because within a week we have this counterfeiting competition that just does not allow us to recover. However, it is fair to say that the media publishes messages in a constant fashion to educate the public about the negative effects of counterfeiting. But the public does not listen to these messages and generally buys illicit products due to price considerations. It will always be attractive to wear the latest fashion for less money.

SM: Nils, can you talk about any efforts that your organization is undertaking?

NM: The AICC has done training in Latin America, mostly in Mexico and Colombia, some in Venezuela, and in Central America. It's an area that we have some experience in and we tend to train law enforcement officials like Customs officials in the US. We have also done training with the FBI for example. But these area programmes that really need to be expanded.

SM: What would you realistically like to see happen to help stamp out these problems?

NM: Well, first of all we will never stamp them out. This will live with us for as long as we live and will get passed on to further generations. It's a problem that's more properly looked at as something that needs to be managed. But, I think the major thing that I would like to see happen is sending the message of getting resources in developing countries that help them with the structural reforms that they need. That's the major thing, but I want to add that there is plenty of piracy in the US and frankly the US government could do more at home.

JA: There is no silver bullet to combat or to solve the problem of counterfeiting. I would like to see more resources coming to the country particularly for educational purposes and for the court system. Unfortunately, with regards to the general public my impression is that it is not aware that counterfeiting is a big problem and if they are they probably don't care. We in Latin America see other problems as a high priority. I would like to see international organizations and foreign governments put this issue on the discussion table with the Argentinean government. This would help a lot in at least using the resources we already have.

SM: I am quite curious to learn what external help from other countries or global organizations have been most effective?

CI: The US government obviously does a tremendous amount of training around the world. That certainly opens the door to even more specialized and effective coordination and assistance that goes back and forth between the US and our trading partners. We had some success with a programme in El Salvador within the last 12 to 18 months. It involved US Customs officials working with El Salvador Customs officials in the wake of the CAFTA agreement. This gave their officials greater authority to act. This raised a lot of interest in this type of collaboration. So if there is a priority for the US government – we spend tens of millions of dollars every year around the world doing a significant amount of training. I am glad to hear that this is really following some of the trends and the observations of this group.

MR: The availability and adaptability of procedures and protocols for trade mark registration in various countries can expand the umbrella of commercial protection for a particular mark, design, or image. The same goes for a country's legal system in facilitating the best means to achieve that expanded protection.

SM: Where does Mexico stand in terms of prosecution? Have your jail sentences and fines become tougher for dealing with counterfeiting and piracy?

LS: I think the problem in Mexico is not of awareness, because the laws are good. That helps to fight against many social situations that turn counterfeiting into a very sensitive problem. By social I mean there are people in the government that don't really cooperate and are corrupt. And there is also organized crime – which sometimes works together with some officials in the government. But, added to that, despite the fact that there are awareness campaigns, the consumer doesn't pay attention since what they want is to buy the cheapest branded products possible. They really don't care about quality and they don't care about the negative impact. So, I think this is a social problem combined by many factors. Solved together, you will see less counterfeiting and less piracy in countries like Mexico.

NM: You really have to look at this from a global perspective but also from a developing country perspective. There are a lot of social issues – there is a tremendous amount of poverty in many countries. I think a third of the population in Brazil has an income of less than a dollar a day so whether those people know anything about counterfeiting is really irrelevant. I mean this is a small piece of a much bigger problem and judges are going to be reagent about

putting people in jail particularly if they believe that they are poor people or it's just the tail end of the distribution system. And it's not usual for people to go to jail, in the US for example. We don't have a lot of criminal penalties. We just passed the Sub Manufacturing Counterfeiting Goods Act which increases the penalties and now for the first time counterfeiters who get caught with significant amounts of product are actually getting jail sentences. But that's not the norm and it probably won't be in many countries.

CI: I think we are definitively seeing an increase in federal criminal prosecutions for IP crimes in the US. And the number of cases that the US Department of Justice brought for IP offences went up about 50% in 2004 to 2005. There are over 200 prosecutors in the US who are dedicated specifically to IP in cyber crime so we are seeing more cases brought forward. I think jail sentences are certainly a deterrent. I think what you have got to have is a system that emphasizes that there is a meaningful risk that's out there for someone – particularly a large scale operator. That there is a pretty significant potential for a jail sentence if they get caught and if they get caught it's going to hurt. That's what I think from a policy perspective we advocate around the world. In terms of a jail sentence, that's at the discretion of an individual's jurisdiction – but you have got to have a deterrent.

AI: I want to add that we have people in power in charge of running the country who understand that fighting against counterfeiting and piracy is not a fight against cheap goods. We are not saying that those cheap goods by themselves cannot be sold. It's just like using a trademark or copyright or the logo of another company that is the infringement. I think a lot of times people confuse that.

NM: Yes, I agree. Take China for example. What would be the incentive of somebody in China to start, say, a designer purse business. I'm sure there are many entrepreneurs in China – really good designers – but how could one of them compete with the avalanche of counterfeit product bags? So counterfeiting actually throttles local innovation and initiative.

SM: *What are the most effective weapons available to rights owners in dealing with counterfeiting and piracy?*

LS: Criminal actions are the best weapons since they are strong and effective. In

countries like Mexico, administrative action is available as well, but it is not as effective and tends to be more costly.

KP: I think that one of the key things – and this is obvious – but in Latin America if you don't have your trade marks registered, you can't go anywhere, you can't enforce them. And I think a lot of companies are much savvier than they were when I started practicing in this area and understanding you have to be registered in order to enforce that. And I would like to say that it would be helpful in Latin America if we could get some of the countries to enter into the Madrid Protocol, which would make the registration of our marks much more cost effective and much faster. The Madrid Protocol is long overdue and much needed in Latin America.

SM: What is the likelihood that most or all of the Latin American countries would look to join the Madrid Protocol? Brazil is reportedly just about to do that.

EF: I am not aware about Brazil, but I know that Columbia has agreed to adopt the Madrid Protocol in 2009.

JA: I think that sooner or later most of the Latin American countries will join the Protocol because industry wants to see Latin America be a part of that. I also heard that Brazil is in talks and the government is moving towards that direction. We are closely linked with Brazil. So if this is seen as a benefit to South America's biggest economy we would sooner or later join the Protocol.

LS: I see exactly the same thing as Juan. It's a matter of time. When – we don't know. Latin America has received a little bit more pressure than normal and I think the largest economies in Latin America have been targeted. I have heard about Brazil. I believe the country is in more serious talks about moving towards the Madrid Protocol. And Mexico has been discussing that, it has been delayed due to the change in government.

SM: What else can rights owners do to improve the protection of their rights?

LS: As a starting point it is very important that they understand the country that they have selected to implement a campaign. Systems vary in every country in cultural economic and legal terms. Practice and usages are also different. Successful rights owners know this well. By understanding the fundamentals they will be able to allocate the right human and economic resources, perform

investigations and take action, having the best return in terms of cost-benefit. Rights holders need to understand that eliminating counterfeits cannot be achieved in the short term, and that requires a lot of action and patience. Counterfeiters tend not to distribute counterfeits with brands of companies that are proactive.

NLC: If it comes to changing how trade mark applications are examined and how courts view infringement actions, owners can take advantage of the International Trademark Association to press for changes.

NM: Well, I think in most countries they have to have TRIPs-compliant laws. Kathryn, maybe you want to talk about this from GE's perspective as you can't do civil actions and have goods seized. That is a tool – a weapon that's useful. The problem is then what happens thereafter? Do these cases just trail on forever or is there going to be some meaningful damages available or the like?

KP: One of the things I would like to add- and I certainly know that this has been an effective way of dealing with some of the laws that are available throughout much of Latin America – is the possibility of joining forces with other rights holders in the same position you are and bringing the sort of actions that involve multiple plaintiffs. I know there are groups of rights owners similarly aligned in certain types of product sectors and I think that's something that sometimes we don't take advantage of as much as we should. We are just sort of seeing what our competitors are doing and seeing if there is a possibility to enforce, because it's certainly been my experience not just in Latin America but everywhere, that if they are counterfeiting my goods, they are counterfeiting my competitors' goods and they are being sold side by side.

NLC: Also, to work with local counsel in various countries and persuade them to lobby for changes in trade mark practices in their countries so that rights holders have more protection. We do both of those things.

SM: *What types of enforcement efforts are you involved in?*

KP: One of the things that we have done in Latin America is to form an internal working group base, which is GE investigators on the ground, people who work for us, who are located in the countries as it's hard to do an assessment of where we see particular problems and which countries we see those

problems in. Basically they help us to assess what the landscape is and where are the places we are most likely to be effective, so that the message gets out on some level that we are actively going to engage against the counterfeiters.

LS: Olivares is a law firm that among other things represents a number of companies in their fight against counterfeiting. We advise clients in adopting strategies, developing campaigns, and implementing all kinds of judicial or extra-judicial actions.

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SM: What are the main threats to the protection of IP rights in Latin America?

AI: It's definitely the lack of resources from the local government who prosecute the crimes and also the bottleneck in the court. It's critical to have a legal and social system where IP rights are respected. In the long run this will be a benefit economically and socially and it's going to encourage creativity as it has in countries that already have this in place – the United States, Japan and western Europe. And I think if Latin American countries don't place value on this then there are going to be more lags in the enforcement of the rights.

LS: Protecting IP rights against counterfeiting has become a social problem that includes different layers or levels; Mafias are well organized and have all sorts of resources to achieve their illicit goals; governments and judiciaries are weak and sometimes corrupt; customers seek the cheapest products regardless of the quality and regardless of the possible negative impact of their purchasing decisions. Counterfeiting is like a vicious circle that makes society sink as a whole.

NLC: The trade mark offices allow very descriptive terms to become registered trade marks and deprive other of the ability to use legitimate descriptive terms to advertise and promote their goods. Registrants try to lock up descriptive terms as trade marks and disadvantage their competitors. Possibly the trade mark offices are keen to have the revenue from the trade mark applications,

and that outweighs their obligation to examine applications under good trademark principles.

SM: *Where are we with regards to harmonization in the fight against IP theft?*

EF: There is harmonization among the Andean community countries because there have been legal actions established against counterfeiting and unfair competition for them.

SM: *And what about the other countries?*

EF: No, not with the other Latin American countries.

CI: I was going to mention that the agreements that we have in the US, I think with at least Peru and Colombia and certainly with CAFTA, the Central American countries and the Dominican Republic as well as with Mexico and Canada – those free trade agreements have a chapter on intellectual property rights that set forth some mutual obligations on the parties to the agreement. And I think that's going to help harmonize some of the legal regimes in the enforcements of intellectual property because these chapters establish the nature of penalties, such as jail terms and fines and garnishment of revenue obtained from the illegal activity and the like and I think it will help in harmonizing at least the countries that are part of these agreements with the United States.

SM: *What has been a pivotal moment where you have said to yourself, we have got to be better or we have got to ask our governments to be better? Or we have to take it upon ourselves to really try and control these problems?*

KP: You know when we think about counterfeit equipment, certainly in my past experience at the NBA, it was all about consumer products. But one of the things that made me realize we had a particular issue in Latin America was the discovery of shipments through the Philippines to various countries in Latin America of counterfeit circuit breakers. That didn't sound like a big deal but if you use those in your house instead of a regular circuit breaker, that can cause a fire which can cause property damage and ultimately death. And so it certainly was a moment where all of us at GE realized it wasn't a problem that we could just ignore.

JA: In March this year, there were some new amendments proposed to our laws because we had a case where someone bought fake medicines and died. And

actually this was punt on the table of the government because at that point the government realized the criminal laws were not good enough to enforce against counterfeit pharmaceutical. So there is a proposed amendment that is in Congress now, which increases the penalties.

SM. What are the most positive signs you have seen that Latin America is working towards managing counterfeiting and piracy?

AI: I am encouraged by the people I meet, both the local practitioners and from organizations like the American Chamber of Commerce at the local level. They are very active in giving out grants to battle counterfeits and piracy. I am also encouraged to see that education is being emphasized and that there is a willingness to address the problem by local governments.