

6 ENFORCING INTELLECTUAL PROPERTY RIGHTS IN MEXICO: A DICHOTOMY BETWEEN PROMOTING COMPETITIVENESS AND THE RULE OF LAW

***Luis Ricardo Rodriguez Meneses**

ABSTRACT

The article addresses the struggles of enforcing intellectual property rights in Mexico. According to the information available, counterfeit goods are widespread within the country. Efforts to diminish the illegal traffic of such goods should begin at the border; however, Customs authorities lack the legal and technical capabilities to detect and detain such goods. As Mexico progresses under a new administration and a favourable economic outlook for investors, legal reforms must be implemented in order to avail titleholders of recourse against intellectual property infringement.

Keywords: customs, enforcement, intellectual property, rights

I. INTRODUCTION

It is widely known that enforcing intellectual property rights is challenging both for developed and for developing countries. The trade of counterfeit goods has a negative effect on businesses throughout the world. In addition to the adverse economic impact on enterprises, consideration should also be given to the social ramifications of such practices, commonly linked to other criminal activities such as drug trafficking and money laundering.

Mexico has had its share of struggles in dealing with the enforcement of intellectual property infringement; objectively, and from a public policy standpoint, the enforcement of intellectual property rights has been relegated to the backburner, because it is considered not as threatening as other criminal activities that have in some regions crippled Mexican society. As of this date, several business associations in Mexico have projected the impact of piracy on the formal market. According to a study by the American Chamber of Commerce¹, it exceeds 50 per cent of the industry in certain sectors such as movies and music, and has a significant share in other sectors, including apparel and footwear.

The infringement of intellectual property rights in Mexico primarily occurs in four sectors: luxury goods, pharmaceuticals, food and drinks, and software. Based on information provided by Senator Jorge Ocejo, of the National Action Party (PAN), such illegal activities

* **Mr Luis Ricardo Rodríguez Meneses** (Mexico) is lecturer in international trade and customs comparative law in the Master's in Law programme of the Monterrey Institute of Technology and Higher Studies Graduate School of Public Administration in Mexico. He is also a Partner of KPMG Cardenas Dosal S.C., and is head of the Trade and Customs/Global Location and Expansion Services for Latin America. He obtained a law degree specializing in International Law from the University of the Americas, Puebla. He also holds a Master's Degree (LL.M) in International Trade Law from the University of Arizona. In 2005, he received a certificate of registration from the State Bar of California in the United States as an international legal consultant specializing in the Laws of Mexico. In the course of his professional experience, he has served as Legal Consultant to the National Law Centre for Inter-American Free Trade in various projects related to international trade. His areas of service include intellectual property, customs valuation, tariff classification, international contracts, dumping, administration of special export promotion programmes and general matters related to international trade.

¹ <<http://www.amcham.com.mx/wcnews/NewsArticleDisplay.aspx?articleid=262>>

represent a loss estimated at 145 million euros per year.² Such losses comprise revenue derived from sales, special consumption taxes, import duties and income tax. Factors that contribute to such levels of infringement of intellectual property rights in Mexico include consumer culture, low purchasing power and the lack of effective mechanisms capable of holding consumers and sellers accountable for such illegal activities.

Unfortunately, the Mexican Government has failed to provide any official information regarding the infringement of intellectual property rights in Mexico. The abundance of counterfeit goods in the streets throughout the country is evident, but the level or percentage of inputs imported infringing intellectual property rights and utilized in Mexico to produce other goods is unclear. Obviously, given the availability of counterfeit goods visible to the general public, which are subject to scarce accountability, one can easily conclude that the enforcement of intellectual property rights at the Ports of Entry is clearly insufficient.

For businesses established in Mexico and those seeking to take advantage of its steady economic conditions, the protection of intellectual property rights has become a crucial topic. In fact, it was recently raised as a major concern for countries of the Trans-Pacific Strategic Economic Partnership, to which Mexico is also in the process of negotiating its participation.

Seeking to balance an open market policy with an effective legal framework that induces compliance with the applicable legal provisions is quite an endeavour. Presumably, the trade of infringing goods and inputs should be predominantly contained at the border. Nevertheless, the existing customs legal framework fails to provide relief for the subject matter. As it stands, customs officials are only allowed to perform the activities specifically provided for in customs legislation such as noting irregularities regarding valuation, tariff classification, and origin declarations. Although generally deemed compliant with Section 4 of the TRIPS Agreement regarding border measures³, a case can be made that the current infringement conditions in Mexico demand an amendment of the existing Customs legislation in order to allow Customs *ex officio* action.

In that regard, the negotiating parties to the Trans-Pacific Strategic Economic Partnership have expressed concern over the policies and procedures implemented by Mexican Customs on the entry of infringing goods into Mexico. This concern is due to the exaggerated burden imposed on the right holder to denounce possible infringement, which is analysed in the next Section, and the low incidence of reviews at the points of entries that is in some cases less than two per cent of the total shipments that enter the country. An additional concern is the ability of customs employees to act against the flagrant infringement of intellectual property rights, given they are not officials and thus are not empowered to act upon crimes related to such infringements.

II. LEGAL FRAMEWORK

Upon signing the GATT in 1986, Mexican laws relating to trade and investment were thoroughly overhauled. Laws relating to foreign trade, customs, competition policy and obviously laws governing industrial property and copyright were significantly revised.

² <<http://www.senado.gob.mx/index.php?ver=sp&mn=2&sm=2&id=10555&lg=61>>

³ *The Legal Texts: The Results of the Uruguay Round of Multilateral Trade Negotiations* Cambridge University Press (1999).

In particular, the Industrial Property Law (LPI) was enacted in 1991, and complementing legal provisions were incorporated into its regulations in 1994. In 1993, the Mexican Industrial Property Institute (*Instituto Mexicano de la Propiedad Industrial* or IMPI) was established to improve the protection of intellectual property rights resulting from the provisions of the North American Free Trade Agreement (NAFTA). Congress passed the Mexican Copyright Law in 1996. It also created an administrative entity called the *Instituto Nacional de Derecho de Autor* or INDA.

Nonetheless, both the Institute for Industrial Property and the Institute for Copyright Laws lack 'teeth', as they are administrative in nature and hence lack the necessary competence. Thus, infringements to intellectual property rights that may constitute criminal actions at the Ports of Entry need to be addressed by prosecuting authorities, once the holder of the intellectual property rights has formally filed a claim. Both institutes, however, have had an important role when it comes to dealing with goods that are already in Mexico, and have assisted the private sector in the course of raids and inspections carried out throughout the country.

It is also worth noting that both the Mexican Industrial Property Law and the Copyright Law fail to provide for a detailed procedure to be established for the seizure of counterfeit goods. Similarly, no specific enforcement mechanisms have been established under the Mexican Customs Law, although there have been two legislative initiatives on the subject.⁴

Under current customs legislation in force since 1996, Mexican Customs employees may suspend the circulation of foreign goods upon prior resolution by the IMPI, INDA or a judicial authority in the area of intellectual property. Indeed, under the Mexican Customs Law, customs authorities have the power to suspend the circulation of goods infringing intellectual property rights, provided the competent administrative or judicial authority has issued an order. Section XXVIII of Article 144 of the Mexican Customs Law provides:

144. The Secretariat shall have, in addition to those conferred by the Federal Tax Code and by other Laws, the following powers:

(...)

XXVIII. Suspend the free circulation of merchandise from abroad within the fiscal premises, once the automatic selection mechanism has been activated, upon prior resolution issued by the competent administrative or judicial authority in the area of intellectual property, and immediately put it at their disposition in the place that such authorities indicate.

Under the provision, the Secretariat of Finance and Public Credit may suspend the circulation of foreign goods within the fiscal premises. Such specific authority is carried out through the General Customs Administration acting through its employees. Customs authorities possess the right to inspect goods at any time during the customs clearance process. However, under the law there is no specific reference of the extension of this inspection power to violations of intellectual property rights. Article 148 of the Mexican Customs Law prescribes

⁴ <<http://www.senado.gob.mx/index.php?ver=sp&mn=2&sm=2&id=10555&lg=61>>

the procedures that must be followed by customs to enforce the administrative or judicial order. Customs cannot act *ex officio*, or solely at the request of the right holder, which complicates matters, since an administrative stay empowering Customs to proceed must first be issued.

The complexity of this process, in which time is of the essence, also carries additional burdens. The administrative order must clearly indicate: (a) the name of the importer of record; (b) a detailed description of the goods; (c) the port of entry of the goods; (d) the estimated time until goods are to be introduced into Mexican territory, which shall not exceed 15 days; (e) the actual location within the jurisdiction of the customs authorities of the corresponding port of entry for which the goods are destined; and (f) the appointment of the recipient of the goods once the goods are seized.

The established procedure, although consistent with Article 51 of the TRIPS Agreement, is heavily reliant on the business intelligence gathered by right holders. Therefore, the procedure is largely ineffective in addressing the matter at hand.

III. INTER-INSTITUTIONAL ARRANGEMENTS

It may be inferred that it is complicated for an intellectual property right holder to possess information at such level of detail for seizure of the goods to be actionable. It is common practice for the intellectual property right holders to act, based on intelligence gathered from information collected abroad. For such purposes, some companies such as *Société Générale de Surveillance*⁵ and *Bureau Veritas*⁶, offer verification services that confirm the activities performed by companies established throughout the globe. Once the information on the companies is gathered, it is common for intellectual property right holders to act on tips provided by customs brokers, business associations or in some cases, customs employees.

Given the complexity of the process, it is generally perceived that border enforcement of intellectual property rights is inefficient to address the movement of infringing goods. In fact, both the public and private sectors have noted that the lack of cooperation and communication between the governmental agencies dealing with the enforcement of intellectual property rights has largely contributed to the problem.

Several committees and institutions have been established throughout the years to address the infringement of intellectual property rights. Notably, an Inter-Secretarial Commission for the Protection, Surveillance and Safeguard of Intellectual Property Rights was created in 1993 to coordinate enforcement efforts; however, it failed because of the lack of cooperation between the governmental agencies involved. The Inter-Institutional Committee to Combat Piracy formed shortly thereafter, bringing together public and private sector representatives affected by violations of intellectual property rights, has offered better results. Its main functions are to study, analyse and coordinate efforts to fight piracy, particularly through training Customs officials. It is within the auspices of this Committee that private companies provide a series of courses to governmental officials. Considering the lack of knowledge and preparation of Customs employees and other officials when it comes to detecting piracy, this is an important factor. Obviously, border enforcement is crucial for an effective system of intellectual property protection.

⁵ <<http://www.sgs.com/>>

⁶ <http://www.bureauveritas.com/wps/wcm/connect/by_com/group>

IV. DATABASE OF INTELLECTUAL PROPERTY RIGHT HOLDERS

As mentioned previously, legislative initiatives have been taken to provide Customs employees with a greater range of ways to detect piracy. However, such initiatives have been frozen for two years now. Nonetheless, there has been an effort to implement a mechanism confirming to Customs employees that the importer of record at the point of entry is also the rightful holder of the intellectual property right.

The purpose of this project is to enhance coordination between the government agencies involved and to use the technology available to show the real identity of the intellectual property right holder, in addition to any existing licensees. It will also allow government agencies to maintain a register of intellectual property right holders that Customs officials may assume have undertaken action against piracy and counterfeiting of their intellectual property. This would entail relaying information through electronic data interchange (EDI), the IMPI and INDA to all of the customs ports in Mexico regarding intellectual property right holders and licensees in Mexico. In turn, customs employees would possess information regarding the description of the goods and pertinent tariff codes. This would enable the authorities to detect any bogus merchandise on the basis that information regarding the goods differs from that registered in the system.

Under the proposed project, a legal representative of the intellectual property right holder may access the database and confirm information regarding their own information, as well as the information of any licensee, customs ports that it commonly utilizes for the goods, as well as a general description of the products. Once all of the information is entered in the system and confirmed, a letter will then be sent to the intellectual property right holder as confirmation. Upon registration, the intellectual property right holder may access the system to include or modify the following information:

- (i) Name of the goods;
- (ii) technical differences between authentic goods and counterfeit goods;
- (iii) authorized routes for the transportation of the goods;
- (iv) countries where the goods are produced or sourced;
- (v) country of origin for the goods covered by the intellectual property;
- (vi) customs ports that are authorized for the entries; and
- (vii) customs ports used by the holder of an intellectual property right.

Once all this information is included within the system, an 'IP Registration Code' is generated that needs to be included in the customs entries utilized by the intellectual property right holder or its licensees. When an import filing is presented before customs, the customs broker would be required to validate the code assigned with the Mexican customs information database.

Once the customs employees present the goods for clearance, they could access the database to corroborate that the description of the goods is consistent with those presented before customs. In the event that there are discrepancies with the information contained in the database and the merchandise submitted for clearance, the IMPI and INDA would be notified for their revision. Although this has yet to be implemented, the Customs Law would not be reformed as a result of this project, which by itself raises questions of the legality of such procedures.

Under the reform project proposed by Senator Ocejo, Article 144 of the Customs Law would be reformed, in order to allow customs authorities to retain any goods subject to the registration of intellectual property rights not included in the dedicated database. Also, the initiative proposes the establishment of an Intellectual Property Holder database similar to the one previously described. Nevertheless, registration would not be mandatory, which again raises questions as to the enforceability of any resulting measures. The amendment proposes granting the powers to Customs authorities to retain goods for up to five days in the event that, upon the customs clearance, inspection, review, verification in transport or any other of the audit means established in the Federal Tax Code, they detect conflicting information with the intellectual property right database.

Undeniably, the procedure that would be incorporated into the Customs Law has yet to be implemented. It raises the question of the customs authority's ability to act against flagrant crimes. In addition, it presents the challenge that shipment inspections at the border are minimal and random, effectively making it impossible to address the problem. It also highlights the issue of Customs understaffing, and a lack of adequate training, in order to address areas that are priority such as national security, drug related crimes, tariff classification, valuation and revenue collection. This diminishes the possibilities of detecting any intellectual property violations, since the Mexican Customs authorities may conclude that intellectual property infringement is taking place as a result of undervaluation or wrongful tariff classification.

Nevertheless, as mentioned, the main obstacle remains that Mexican customs authorities are not empowered to act on their own initiative and detain shipments based exclusively on the fact that they may be pirated or counterfeit.

V. COUNTERFEIT INPUTS

It is notable that most of the efforts in order to address piracy in Mexico relate to end-user goods. Nevertheless, measures addressing imports of inputs utilized to produce infringing goods and spread piracy have been largely unattended. The most notable cases were led by the music and movie industry, and focussed on seizing raw materials utilized to propagate piracy (blank discs, CD and DVD burners, cases, *inter alia*).

In addition to designating dedicated ports of entry for the importation of the aforementioned goods, special border measures were implemented as a result of the collaboration between IMPI, Philips and the Association for the Protection of Phonographic Rights (APDIF) to inspect blank CDs crossing into Mexico, the importation of which presumably violated Philips' patent rights. The programme included training customs employees to run specific software on samples of imported CDs to determine whether the patent holder or the rightful licensee manufactured them.

As a result of such actions, the intellectual property right holder was able to determine if the importer of record paid the related royalties for the purchase and import of blank CDs. If, from the inspection, it was concluded that no royalty had been paid and the authorities lacked a judicial or administrative stay for the goods, they would be empowered to retain the goods due to undervaluation, on the basis that the royalty was not part of the price paid or payable. Most of these cases were ultimately dismissed at the courts as minor offenses; the mere act of introducing CDs into Mexico did not support claims that an infringement took place within Mexican territory, since the goods were not ultimately imported.

In that context, it is worth mentioning that criminal actions related to the infringement of intellectual property rights require an element of trading or distribution in order to be actionable, and therefore constitute infringement. An additional deterrent to companies seeking to enforce their intellectual property rights is the fact that the claimant must bear the cost of storing the infringing goods until a final resolution on the matter is issued and post bond for any payable import duties and taxes.

VI. CONCLUSIONS

Mexico positioned itself as a benchmark during the past economic crisis. Many analysts rank Mexico as the 13th largest economy in the world, set to become one of the eighth largest economies within the next 20 years. That optimistic outlook is based on sound macroeconomic indicators, which offered stability through very difficult times and a steady influx of foreign direct investment. Mexico also has a diversified network of trade agreements, and although it is still very reliant on the United States of America, it has fared even better than the United States in the latest economic crisis.

Just recently, the split Mexican Congress approved a labour reform within a record time frame. The new law reform balances the scale that was formerly overwhelmingly in favour of the worker and establishes the possibility of new labour agreements at an hourly wage. The approval of the reform indicates that legislators have heeded the mandate of the Mexican society. Approval of reforms that allow Mexico to confront the future with a different commitment to the investment environment are needed.

All these factors set the stage for Mexico to be one of the most competitive economies in the globe for companies seeking to locate or relocate investments abroad. On the other hand, Mexico's current main challenges are crime and drug trafficking. In addressing such problems, it is apparent that such criminal activities do not impose a threat by themselves, but rather the lack of accountability for the transgressors poses a threat. Accountability of transgressors, obviously including those that misappropriate intellectual property rights, needs to be at the top of the agenda.

Changing cultural principles in order to condemn piracy and counterfeit goods might be a lengthy process. Nonetheless, adopting strict legal measures and imposing stiff penalties for those engaged in such illegal activities can serve as an effective deterrent. For such purposes, it is important to reevaluate the powers currently granted to customs employees in order to convert them into customs officials, who are empowered and able to denounce and prosecute violations of intellectual property rights.

According to the results of the Competitive Alternatives study by KPMG for 2012⁷, Mexico is ranked 13th out of 14 countries evaluated when it comes to rule of law. This means the general perception that one will be held accountable for violation of the law when breaching a law is less than countries such as China, India and Brazil, and it is only superior to Russia. This indicator needs to improve if Mexico wants to keep advancing in the world economic and competitiveness spectrum.

⁷ <<http://www.competitivealternatives.com>>