

Enforcement of IP rights is normally based on traditional measures in Mexico. But, argue **Jesus Molina** and **Sergio De Alva** of **Molina Salgado & De Alva**, there is another powerful weapon available to IP owners

Additional means to combat counterfeiting

A few months ago, specifically on June 15 2006, the President of Mexico, IP owners and government agencies such as the Mexican Institute of Industrial Property (MIIP) and the Ministry of Finance signed the so-called National Agreement to Combat Smuggling and Counterfeiting (NACSC).

The aim of this agreement is that the Mexican government and IP owners will join forces to make a direct attack on smuggling and counterfeiting products, with the aim of substantially reducing the import and circulation of illegal merchandise in Mexico.

The agreement obliges the authorities to assist and cooperate with IP owners in a more expeditious and less bureaucratic way, and they are also bound to collaborate with other government entities to accomplish an effective national IP enforcement programme.

The NACSC will not by itself combat smuggling and counterfeiting. Rather, it is necessary that IP owners participate actively by performing investigations (where possible), initiating actions and maintaining a close communication with the authorities until they obtain the expected results, generally in the seizure of the smuggled or counterfeited goods and the detention of the infringers.

Traditional actions against IP counterfeiting conducts

Although is not an easy task for IP owners to initiate a foreign enforcement programme, it is always a highly recommended option to maintain and increase the value of their markets and reputation before consumers, and a higher level of trust and recognition of their trade marks.

Considering that there are different legal options in Mexico to initiate an enforcement programme, it is advisable to decide a strategy on a case-by-case basis, and, in most cases, to initiate at the same time different kinds of actions.

We consider traditional anti-counterfeiting actions to be those that have been widely explored, therefore, only a quick summary of them is given to evaluate their advantages and disadvantages *vis a vis* tax audit actions regarding IP matters.

Administrative actions

Industrial property and copyright infringement procedures are initiated and decided under the venue of the MIIP.

Although the MIIP is an administrative entity and not a court, under the Industrial Property Law and additional administrative regulations it is fully empowered to decide if an administrative infringement has been committed against a copyright or industrial property right owner.

Generally, administrative infringement procedures such as these are initiated through a writ in which injunction measures and/or an official inspection visit are requested at the premises of the alleged infringer. Once the official inspection visit has been executed, infringing merchandise might be seized by the administrative inspectors.

It is important to highlight that an injunction bond is always required to guarantee any possible damage that may be

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incurred by the alleged infringer, and unfortunately a counter-bond might be posted by the defendant party to annul any seizure that was previously made of the infringing product.

After both parties file their pleadings and allegations, final decisions are rendered generally in a term of eight to 18 months. Complicated or invention-related cases usually take a couple of years more. As a result, fines could be imposed of up to 20,000 days of the general minimum wage payable in the Federal District on persons who commit the infringements.

An indemnification or compensation for damages and losses can also be requested and in no case should be less than 40% of the public selling price of each original product or service.

Against the MIIP's final decision, a nullity trial might be filed before the Federal Court of Tax and Administrative Affairs, and finally, a constitutional action before an Administrative Circuit Court can be initiated against this last decision. Both remedies could take up to an additional 24-month period.

Criminal actions

According to the Mexican Industrial Property Law and criminal regulations, counterfeiting IP-protected products is considered a felony that is prosecuted by the Attorney General's Office. This procedure begins with a direct complaint by the IP owner or its legal representative before the Attorney General's Office. Once the complaint is filed together with evidence to support the action, a technical analysis must be satisfied in order to request a search warrant to a criminal Federal District judge.

One of the most attractive highlights in prosecuting a felony through this procedure is that execution of a search

warrant (raid and seizure of the counterfeited merchandise at the felon's premises) is backed up by local police, the Federal Investigation Agency and the Federal Preventive Police agents, thus effectiveness is highly accomplished.

Alleged counterfeiters are detained while the procedure is being carried out, and if it is considered that the elements of the *corpus delicti* are fully integrated, the Attorney General's Office will request a Criminal Federal District Judge to initiate a federal criminal procedure against the felon.

An action such as this usually takes from three to four months from the IP owner's complaint to the execution of the search warrant, and a subsequent 10-month period for the initiation of the criminal procedure before the criminal Federal District judge.

It is advisable to decide a strategy on a case-by-case basis, and, in most cases, to initiate at the same time different kinds of actions

Furthermore, an additional 12 to 24 month period should be considered if appeals or constitutional actions are filed against the judge's decision.

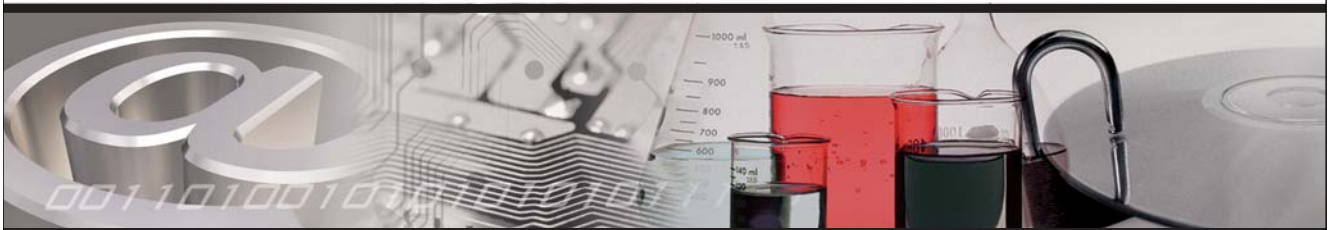
IP Customs actions

According to the Federal Mexican Customs Law, Customs authorities are obliged to observe and comply with administrative decisions of any IP authority in which the circulation of IP-infringing merchandise is forbidden.



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The specific formalities to detain infringing merchandise at Customs checkpoints are the same as the administrative seizures of the Mexican Institute of Industrial Property. However, the Customs Law provides that infringing merchandise will only be detained if the administrative decision of the IP authority:

- 1) indicates the name of the importer;
- 2) provides a detailed description of the infringing products;
- 3) indicates the Customs house checkpoint in which the infringing products will enter into Mexican territory;

Mexican Customs are bound to report to the Attorney General's Office if a felony has been detected at one of its 48 Customs houses and checkpoints

- 4) indicates the time in which the infringing products will enter into Mexican territory which will not exceed a 15 day period;
- 5) indicates the address of the warehouse in which the infringing merchandise will be stored; and
- 6) indicates the name of the person who will keep legal possession of the seized products.

These types of actions are very difficult to accomplish on practical grounds, due to the fact that they can only be requested to Customs authorities complying with each and every one of the above-mentioned points, and only by a final decision of a competent IP authority. In reality, border and Customs activities develop so quickly that getting an administrative decision from the IP to the Customs authorities in time might not be easy.

The good news is that Customs authorities are obliged to notify the Attorney General's Office of any counterfeiting material, in order to advise the IP owner about the existence of the counterfeiting goods so that a criminal action can be started.

Tax audit actions as an alternative

In general terms, when we think about IP counterfeiting, we do not always consider that counterfeited merchandise could imply also smuggling products. In fact, in most cases when IP infringing products are introduced into the Mexican market from overseas, they do not pay taxes as they should, due to the illegal nature of this business.

Therefore, Tax Administrative Procedures and their wide operational advantages should be considered by IP owners alongside traditional anti-counterfeiting actions.

According to the Mexican Tax Laws and their regulations, the government entity in charge of avoiding the entry of smuggled merchandise from overseas is the Mexican Customs Office which answers to the Ministry of Finance and is obliged to act with or without the specific request of an IP owner or taxpayer.

This procedure starts by identifying the importer of the allegedly IP counterfeiting products and determining if he is duly recorded in the government's tax roll. If the presumption exists that the importer does not comply with this or any other Customs or tax requirement, a Tax and Customs Administrative Procedure will be initiated.

If the importer fully complies with tax and Customs regulations, free circulation of the IP-infringing merchandise cannot be avoided through this procedure. However, traditional IP anti-counterfeiting actions can still be initiated. Nevertheless, as previously mentioned, imports of IP counterfeited goods generally do

not pay tax and Customs duties, so it is very likely that in most cases traditional and tax actions can be initiated simultaneously.

A Tax and Customs Administrative Procedure is started by an inspection order at the premises of the taxpayer or where the smuggled merchandise is located. If smuggled products are found, these will be detained until the procedure is concluded.

The tax authorities usually take four to six months to render a final decision that could be appealed by means of an administrative remedy or a nullity trial before the Federal Court of Tax and Administrative Affairs.

It is important to highlight that inspection orders such as this one could take only a few hours to be issued by the tax authorities, and their execution is backed up by local police and Federal Tax Police agents.

No search warrant is needed from a federal judge and due to the legal nature of this action (Mexican Customs versus taxpayers) a counter-bond cannot be

posted to annul the seizure of the smuggled merchandise.

Additionally, Mexican Customs are bound to report to the Attorney General's Office if a felony has been detected at one of its 48 Customs houses and checkpoints and if there is a regional office of the MIIP near the jurisdiction, if possible to notify it that a criminal action might be initiated by the IP owner.

Advantages of tax audit actions

A tax audit action offers a number of advantages including:

- It is a more expeditious action, as it can take only a couple of hours to seize the merchandise and detain the infringers.
- It reduces costs, as it is not necessary to prepare a complaint nor to pay fees or bonds, but only to provide the authority with information about the potential infringer and follow up the procedure.
- It is a less bureaucratic procedure, as it does not require the filing of a complaint.
- It is an effective action that complies with the purpose of protecting IP owners' rights and interests.
- The smuggled/counterfeit products are detained before they are put into commerce.
- It provides for free storage and custody of the seized goods.
- It helps in detecting and preventing the circulation of over-running products and parallel imports.

Tax audit actions are more frequent in the smuggling and counterfeiting of IP rights, as copyrighted material is nowadays copied and distributed by electronic means, or it is often sufficient to have a sample of an original copyrighted material to reproduce it locally.

As will be noticed, due to the reduction in time and expense, prompt reaction, effectiveness of the seizure, qualified personnel, immediate denial of access to the national territory of the smuggled merchandise including IP counterfeited products, and a high degree of collaboration between Mexican Customs and US Customs, this procedure gives many advantages compared with traditional enforcement actions.

However, this does not mean that an action such as this may substitute a criminal action before the Attorney General's Office or an administrative infringement action by the MIIP. All actions can work together supported by a previous effort of intelligence by the specialized division of the Attorney General's Office or even private investigation sponsored by the IP owner.