

## LITIGATION

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### Combatting **Counterfeiting** and **Piracy** in Latin America

*Corporations need a plan of action.*

BY MARIA SAVIO AND DIANA MULLER

**L**ATIN AMERICAN countries, with nearly 600 million people, or 10 percent of the world's population, present many good business opportunities to the United States, not only as markets for product exports but also as additional locations for competitive manufacturing facilities. This is due to various factors:

- the current political stability of many Latin American governments;
- the trade agreements entered into by the United States with Chile, the Dominican Republic, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Peru and Mexico, and the one being considered with regard to Colombia;
- the favorable exchange rates;
- the proximity to the United States from a language and culture perspective.

Nowadays, "Latin America" refers to Mexico, most of Central and South America, as well as to Cuba, the Dominican Republic and Puerto Rico. U.S. businesses need to understand how one of their most important assets, intellectual property, can best be protected in this region, especially from counterfeiting and piracy that plague businesses everywhere.

Notably, the efforts of the international legal community, and particularly of organizations such as the World Trade Organization (WTO), the World Intellectual Property

Organization (WIPO), the International Trademark Association (INTA), the International Association for the Protection of Intellectual Property (AIPPI), the International Anticounterfeiting Coalition (IACC) and the Interamerican Association of Intellectual Property (ASIPI) have contributed to recent judicial and administrative improvements favoring the protection and enforcement of IP in the region.

In general terms, counterfeiting and piracy include the manufacture and sale of products that not only bear a mark that is identical or almost identical to a genuine trademark but may also mimic the appearance of branded products. These activities prevent legitimate IP owners from reaping the benefits of developing or creating branded products.

Not only are famous luxury marks such as LOUIS VUITTON, LONGCHAMP and RALPH LAUREN utilized by unauthorized parties on "imitation" products, but it is now known that the manufacture and sale of counterfeit merchandise goes hand in hand with organized crime, terrorism, drug trafficking, money laundering and tax evasion. Counterfeiters target all industries.

Whether manufactured in China or in the countries of Latin America, knock-offs are openly offered on the Internet, sold by street vendors, found in stores, imported through the Panama Canal, available in certain regions such as Ciudad del Este in Paraguay and very often find their way to the U.S. market. The potential for harm to consumers caused by the counterfeit trade is quite serious: When the products of pharmaceutical, auto and aviation, medi-

cal device, and liquor companies are counterfeited, lives are put at risk.

#### Why Latin America?

Latin American countries provide a fertile bed for the proliferation of counterfeiting.

One reason is that, historically, they have experienced economic and political crises at one time or another that created political and economic turmoil—for instance, Brazil in the late '70s and '80s, Argentina in the '70s and 2000, El Salvador and Nicaragua in the '80s, and so on. These conditions support trade in counterfeit products, both their local manufacture for export and the importation of counterfeit products for sale in these countries.

It is no secret that Latin American countries at times have been controlled by corrupt authorities and crooked police officers: Bribery was simply a way of doing business. This thwarted the enforcement actions of honest prosecutors. Moreover, authorities might not have even seen the value of halting counterfeit activities because other "more serious" problems occupied their attention.

Finally, Latin Americans are, by and large, "status seekers." Branded products are highly consumed. If consumers cannot afford to pay for a legitimate product, they will find a way to acquire the closest imitation. Given the political and economic frustration in lean times, to become the owner of even a "fake" product when the real product is exorbitantly expensive is viewed as a personal achievement. Educating consumers regarding the illegal activities that coun-

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terfeit products support might help stem the problem.

### The Harm Is Being Recognized

Despite the profit potential, the governments of Latin American countries are recognizing that being a hub for piracy and counterfeiting, or even having such a reputation, is not beneficial. The main reasons are:

(a) Tax evasion results in loss of tax revenues: The Venezuelan Internal Revenues and Customs Agency (SENIAT) began to apply administrative rulings on the observance of intellectual property rights to imports and customs clearance of merchandise. SENIAT has forbidden the release of any infringing product and the circulation of illicit merchandise. The commitment of the SENIAT officers has resulted in great success.

(b) Counterfeiting results in serious health threats: According to the World Health Organization, at least 25 percent of pharmaceutical products sold in developing countries are counterfeit. Counterfeit medicines do not meet quality standards and may include wrong or insufficient active ingredients.

For instance, in 2004 in Argentina, a healthy 22 year old woman died because she was injected with a counterfeit product. It has been quite common in Brazil for pirates to get a hold of discarded bottles of skin treatment products, fill them with a liquid, and offer the products in the market as if these products were the original. The Dominican Republic, El Salvador, Peru and Mexico have reported millions of dollars in counterfeit pharmaceutical products that entered the countries as contraband. Some of the illegal products are confiscated by federal agents, but the battle must continue to avoid risk to unsuspecting consumers.

(c) Unless the illegal activities linked to counterfeiting crimes are properly fought and controlled internally, the industrial world is less likely to make foreign investments in Latin America and may boycott its legitimate products too.

### Private Steps to Protect IP

Although on a legislative and administrative level steps are now clearly being taken to counteract the problems of counterfeit-

ing, such as the establishment of coalitions for the coordination of IP intelligence, on the private sector level, companies can adopt a plan of action to protect their respective interests in Latin America. This plan can involve any one or more of the following steps.

1. Identify problematic regions such as: Ciudad del Este (Paraguay); Foz de Iguazu (Brazil); Puerto Iguazu (Argentina) (known as the Three border zone); Port of Paranaguá (Brazil); Nueva Palmira (Uruguay); Iquique (Chile); and Colon Free Zone (Panama).

Paraguay is the center of significant smuggling operations involving counterfeit products sent to Brazil and Argentina through the Three border zone. Ciudad del Este is notorious for the importation of counterfeit merchandise from China, Taiwan and other Asian countries.

An interesting anecdote: Paraguay is one of the largest exporters of American cigarettes in the world. More than 40 cigarette manufacturing companies were established

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in the region of Alto Panama that borders Brazil. Keeping in mind the limited population of Paraguay (around 6 million people), the cigarettes are mainly for export to Brazil, Argentina and Bolivia.

2. Determine which customs authorities are helpful in the area and which countries in the region permit the recordation of intellectual property rights with customs authorities, or where customs agencies are more receptive to halting the importation of counterfeit products.

Border measures are becoming increasingly appealing to brand owners. For instance, border and customs directives issued in Brazil have allowed for the confiscation of millions of counterfeit goods. Back in 2003, over 150,000 packages of counterfeit cigarettes produced in Paraguay were seized by Brazilian Customs. The authorities have the ability to seize, at entry points, counterfeit merchandise either ex-officio or upon request of any lawful party.

In 2005, Argentina passed an amend-

ment to the Argentine Customs law giving more police power to Customs. Customs recently issued Resolution No. 2216/2007 implementing a procedure to control the importation of counterfeit products into the country by creating a "System of Alerts" on the basis of previously recorded trademark registrations. Customs may detain the presumed counterfeit products so as to allow the legitimate proprietor to examine them before they come into the country.

Border measures are also recognized in Paraguay. The National Customs Office of Paraguay implemented, on Jan. 2, 2008, a Registry of Trade Names and other Intellectual Property Rights. As of Feb. 22, 2008, it was possible to record trademark registrations at customs to enable customs authorities to monitor the legitimate or illegitimate movement of goods.

Panama is notorious for the Colon Free Zone (the equivalent to Ciudad del Este in Paraguay), recognized as the geographic area in Central America where counterfeit products coming from Asia, primarily from China, are sent and thereafter are re-exported to other Latin American countries and to the Caribbean. Copyright and trademark registrations can be recorded with the Panamanian Customs Office and at the Colon Free Zone. This procedure is highly advisable.

With or without a recordation system, customs authorities are generally receptive to education and training by IP owners and such efforts have resulted in seizures of pirated goods. The owners of the LONG-CHAMP and LE PLIAGE brands for handbags have successfully worked with customs officials in Latin America to enable them to recognize the legitimate trademarks and features of their products so as to distinguish them from illegitimate ones. Educating customs authorities and enforcement officers has recently been the key to combating the proliferation of counterfeit products in the region.

Education is continuing. This month, various trademark owners and their lawyers are sponsoring a customs seminar in Buenos Aires, Argentina to teach customs officials what "to look for."

The primary problem in a country such as Brazil is its vast size, making the control of what comes into its territory difficult. Undaunted by this problem, in 2004,

a National Council to Combat Piracy was established in an effort to substantially increase seizures of counterfeit products. Brazil Customs works with the Federal Police, fiscal authorities and the armed forces to accomplish this goal, and as a member of MERCOSUR (Mercado Común del Sur, or the Southern Common Market), is working together with MERCOSUR'S other member countries, Argentina, Uruguay and Paraguay, to improve inspections and promote educational campaigns at their borders.

3. Conduct investigations in the marketplace. It is important to have distributors, importers, trained agents and private investigators comb the market to determine if counterfeit products are actually being sold in the principal cities of the countries of interest. Fairs, flea markets, important stores, and geographic regions known for the manufacture of the products of interest should be checked. Local lawyers that handle IP rights for legitimate owners can provide expertise and services that help monitor the local markets as well.

4. Become familiar with local laws and enforcement actions, administrative or civil procedures, and criminal actions. Companies must understand how laws are applied and what administrative alternatives are available. For instance, civil actions are available in Brazil, Argentina, Uruguay, Paraguay, Chile, Ecuador, Colombia, Peru and Venezuela. Brazil, Argentina, Panama, Colombia and Venezuela provide for injunction proceedings. In Brazil, it is possible to obtain orders allowing searches and seizures of counterfeit goods.

Damages can be awarded in counterfeiting cases in Brazil, Argentina, Paraguay, Uruguay, Panama, Ecuador, Colombia, Peru and Venezuela. Courts generally award actual damages based on proof of damage. Although enforcement of criminal legislation is not necessarily effective, criminal remedies are available including fines and imprisonment in these countries.

Initial proceedings, akin to police actions to seize counterfeit products, are quite effective but the authorities do not generally arrest the people involved in the counterfeiting, especially if they are first time offenders.

5. Build a team of lawyers and a coalition of industry-specific manufacturers to act against counterfeiters. The network of local lawyers should include not just experts in traditional IP law but those with specific expertise in anti-counterfeiting remedies.

For instance, the owners of the brand

LONGCHAMP in Venezuela, following the advice of anti-counterfeiting-savvy counsel, brought an action against a well-known retailer with the Superintendencia para la Promoción y Protección de la Libre Competencia (PROCOMPETENCIA) because this administrative procedure was deemed to be fast and more effective as compared with a traditional legal proceeding.

Raid operations in Venezuela have been conducted by the owners of famous brands including LOUIS VUITTON, KATE SPADE, CHRISTIAN DIOR, MONTBLANC, CHANEL and CARTIER. Complaints were filed there with Prosecutor Office No. 18, which issued an order opening the investigation and then transferred the request to the Anti Piracy Section of the Judicial Police. The Judicial Police remitted the information and documents pertinent to the seizure orders to the Prosecutor's Office (part of the Venezuelan Public Ministry Intellectual Property Division). The seizure orders were authorized by the Office of the Prosecutor to be carried out and the matter reported to the Control Courts of the Metropolitan area of Caracas. Raids were successfully conducted and brilliantly orchestrated.

6. Check if a local licensee or distributor intends to act on the brand owner's behalf. Action to stop counterfeiters should not be undertaken without the blessing of the brand owner. Local companies may not be aware of the negative consequences in the United States of inappropriate criminal threats, interference in contractual relationships with third parties, or vigilante actions.

7. Study the Internet. Many sites offer counterfeit products and make same available in Latin America.

8. Engage in informative advertising in magazines that circulate in Latin America in Spanish or Portuguese. Airline magazines may be a great vehicle to inform customers of the ownership of legitimate IP rights, how to identify counterfeits, and to warn the public of the risks and consequences of counterfeiting.

9. Maintain an enforceable and comprehensive intellectual property portfolio by registering trademarks in the various Latin American countries and protecting other IP rights, such as copyrights, patents, domain names, commercial names and industrial designs.

Although Paraguay, Uruguay, Argentina and Brazil are members of MERCOSUR, Peru, Bolivia, Colombia and Ecuador are members of the ANDEAN GROUP, and the United

States, Canada and Mexico are members of NAFTA, there is no regional trademark registration system. Latin American countries have adhered to the TRIPS agreement (Agreement on Trade Related Aspects of Intellectual Property, that set standards on many aspects of IP including enforcement procedures) enabling, for instance, customs authorities to adopt significant penalties and sanctions against counterfeiters.

10. Create a guide for the illustration and identification of genuine versus counterfeit/infringing products for distribution.

11. The use of holograms and other means for tracking and identifying genuine products has been very effective in the area.

## Other Measures

The fight must continue at all levels.

With the help of INTERPOL, South American countries (Argentina, Brazil, Paraguay and Uruguay) were involved in "Operation Jupiter." The purpose was to combat organized crime groups involved in illegal IP activities. The operations enabled the local agencies and police officers to make arrests and perform seizures of CDs, DVDs, electrical goods, medical products, textiles, vehicle parts, cigarettes, clothing and luxury goods. Foreign nationals of various Middle Eastern and Asian countries were involved in these criminal activities.

Regardless of the efforts in the region, successfully combating counterfeiting in Latin America requires enforcement in other areas of the world.

China continues to be the main supplier of counterfeit products to Latin America. With the leadership of the United States, the world community must continue to combat counterfeit and piracy activities in China and other countries in Asia.

More counterfeiters need to be prosecuted and sentenced to prison, and word of the same circulated. Moreover, special courts for IP enforcement should be created, prosecution of IP crimes should be ex-officio, and restitution awards to IP owners should be more common.