

## **PANEL #4: INTELLECTUAL PROPERTY AND THE RULE OF LAW**

Speed and globalization collide with a lack of legal and legislative consistency in new markets: when these forces collide, investment waits or retreats. One particular problem that companies face when seeking intellectual rights protection in a new market is the lack of legislative and legal consistency between the company's home country and the new market. To be sure, Free Trade Agreements (FTAs) and regional compacts in Latin America have played a critical role in ensuring that member states adopt, at the very least, general terms of intellectual property rights provisions. The panel will discuss these provisions, including the use and form of intellectual property (IP) rights protection, globally accepted standards, and the commitments to adapt IP rights through local legislation.

### **PANELISTS**

Licenciado Francisco Luna-Anaya (Facilitator), Partner, Baker & McKenzie (México)

Dr. Carlos E. Alfaro, Partner, Alfaro-Abogados

Dr. Enrique Cavero, Senior Counsel, Procter & Gamble Latin America

Licenciado Juan A. Pittaluga, Partner, Pittaluga & Associates

Mr. Steve Solot, Senior Vice President for Latin American Operations, Motion Picture Association of America

Mr. Henry Horbaczewski, Senior Vice President and Legal Counsel, Reed Elsevier

DRA. MACARENA TAMAYO-CALEBRESE: May we begin? This next panel will address intellectual property and the rule of law. It will focus on the use and protection of intellectual property rights, the affected standards, and the local legislative compromises needed for the adoption of these standards. Our moderator is Licenciado Francisco Luna-Anaya. Welcome. A partner at Baker & McKenzie here in Mexico, Mr. Luna-Anaya has published several articles related to the

subject of intellectual property and has been invited to speak at various intellectual property seminars organized by firms and local associations.

It is also a pleasure to introduce to you Dr. Carlos Alfaro, a partner at Alfaro Abogados. Dr. Alfaro has an extensive career representing national and multi-national corporations, financial corporations, and banks, as well as multi-lateral organizations. Dr. Alfaro has written and lectured extensively on a variety of legal questions based on his public and private activities. Welcome.

We also have Dr. Enrique Cavero, senior legal advisor on intellectual property for Procter and Gamble in Latin America. Dr. Cavero has a law degree from the Pontificia Universidad Católica de Perú as well as a masters of law in intellectual property from the Pontificia Universidad Católica de Perú. Welcome to you also.

We continue with Mr. Juan Pittaluga, partner at Pittaluga and Associates. He is the main partner and founder of the journal and website MARCASUR.<sup>1</sup> He also served as Secretary-General and Vice President of ASIPI, or the Inter-American Association for Intellectual Property.<sup>2</sup> Welcome.

We also have Mr. Steve Solot, Senior Vice President for Latin American Operations for Motion Picture Association. Mr. Solot has two master's degrees: one in economics from Boston University and another in Latin American Studies from the University of Pacific. Mr. Solot is from Tucson, Arizona, and has lived and studied in Spain, Israel, Chile, and Mexico.

Finally, we have Mr. Henry Horbaczewski, Senior Vice President and Senior Legal Advisor of Reed Elsevier, the parent company of LexisNexis.

LIC. FRANCISCO LUNA-ANAYA: Good afternoon, everyone. We appreciate your presence after all the interesting panels you have attended this morning. We could not have had better panelists for this session of intellectual property, where we will cover each aspect regarding the protection of intellectual property through free trade agreements and regional treaties. To start, Dr. Pittaluga will give us an overview in using technology means, primarily the Internet, to protect intellectual property. We will continue with Mr. Enrique Cavero, who will provide an overview of the region, as he is in charge of intellectual property in Latin America for the transnational corporation Procter &

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1. For further information, see <http://www.marcasur.com/es/index.asp>.

2. For further information, see <http://www.asipi.org>.

Gamble. Our third panelist will be Henry, who will speak about the advantages of free trade agreements for the Latin American economy and the global economy. We will follow with Mr. Steve Solot who will present us an interesting view regarding the projects he has completed in the motion picture industry, and the various efforts that the industry has attempted in order to increase the protection of the intellectual property. We will conclude with an interesting example presented by Dr. Carlos Alfaro where we will finally be able to see the conflicts that can arise between local laws and international treaties, as in the *Bacardi* case. Without further ado, I give the floor to Dr. Pittaluga.

LIC. JUAN PITTALUGA: Thank you, Francisco. I would like to thank LexisNexis for the organization of this event and especially for having invited me to be a panelist among the other prestigious panelists from Latin America and the U.S. My contribution focuses on the effect of technological advances on intellectual property rights in Latin America and whether technological advances have affected the protection of the intellectual property rights in Latin America. We also ask ourselves if there is awareness in Latin America of the close relationship in between the protection of intellectual property rights and economic development, something that Henry will address in more detail.

Without a doubt, the Internet has revolutionized technology and intellectual property rights, not only in Latin America but also worldwide. Devices have also revolutionized the way we listen to music, and scanners have changed the manner with which to speedily copy text and documents. Today, we read magazines, newspapers, and books on the Internet. In Latin America, however, there are counterfeit products, those made without authorization, that are manufactured in large scale and with the help of these technological advances. They are not purses or hand bags: while these products are counterfeited, the majority of them are not manufactured in Latin America and Latin America has nothing to do with the technological advances related to manufacture of such products. They are produced in other countries and brought into Latin America for trade. Cigarettes, however, are a product that is often counterfeited and manufactured within Latin America.

However, the twelve minutes that I have to introduce my topic does not allow me to discuss all counterfeit products. I will concentrate on examples that relate directly to technological advances. I am referring to DVDs, CDs, electronic books, and video games. With these products, we do have a problem of products often counterfeit and

not authorized that are manufactured in Latin America. Blank compact disks arrive in Latin America, the majority from China. In Latin American countries, counterfeit, unauthorized content is burned onto them. We also have DVDs burned with unauthorized music and movies. These are problematic because not only can they be purchased but they can also be downloaded from the Internet. Electronic books are another product produced in Latin America using technological methods such as scanners. It is possible nowadays to purchase these books at much lower prices than the original. Various parties are involved in and affected by these violations: victims, offenders, law enforcement authorities, and consumers. Victims include companies in the movie picture and music industries as well as the actors, artists, singers, vendors, printing houses, and even the government that cannot collect taxes on the counterfeit production of products that are sold on the black market. We also have the offenders, classified according to their goal: there are those that trade with the third parties and those that engage in counterfeit production for domestic-personal use. We could further discuss domestic-personal level offenders, but that is not today's topic.

Next, we turn to the authorities, our main focus, and examine the current level of protection that exists in light of these technological advances. We have consulted several countries in the Southern Cone. The first question we asked was whether the countries had laws that reflect the fight against the traffic and trade of unauthorized products. I am not going to read to you each report we received, but in every one of these countries, there exists legislation to protect intellectual property rights. These legal measures are civil, carrying penalties in every country. Additionally, each country has administrative processes, including customs, operating to protect intellectual property rights and prosecute offenders. In each of these countries there are recently created organizations that investigate intellectual property rights violations. For instance, in Brazil, and Steve knows more about this than I, there exists a National Council against Piracy and Intellectual Property Crime; in Argentina, there's a recently created register through which trademark owners can assert their rights by a sworn statement to customs. If the registered brands are imported without the authority of the brand owners, customs can investigate. In Peru, there is an Intellectual Property Rights' Office<sup>3</sup> and the Fiscal Police's Intellectual Property Rights Crime Division, while in

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3. For further information, see Oficina de Derechos de Autor, Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual, <http://www.indecopi.gob.pe>.

Paraguay, there is the recently created Specialized Technical Unit, which acts as an anti-piracy brigade. Finally, in Uruguay, there is the Permanent Commission in Defense of Intellectual Property Rights.

We also asked a third question that often emerges, not only in Latin America, but also in developed countries: what political obstacles stand in the way of *prosecuting* intellectual property rights offenders? We know protective legislation exists, but at the point of implementing enforcement processes, are there political obstacles? In the countries we have consulted, there are no obstacles to prosecution. We do not know if such obstacles exist in other countries. However, there are some material problems. Often, the police do not have the technical resources necessary to investigate and prosecutors lack information to charge offenders, but these are not political obstacles. There have been innumerable prosecutorial proceedings in these countries between 2005 and today. In Paraguay's East City, there has been much progress in the prosecution of all these criminals. In addition, penal proceedings have worked in all of these countries, oftentimes imprisoning the offenders. In Uruguay, for instance, there have been more than forty proceedings and over 25,000 video and music recordings have been confiscated. It is not a quantity that you get scared about, but these numbers are significant for a small country such as Uruguay, which has about three million inhabitants.

Having addressed the legislation in these six countries, we must now ask: how do free trade agreements affect the protection of intellectual property rights? As far as we can see, free trade agreements have not created substantial change. There is no before and after when it comes to the influence of free trade agreements in Latin America upon intellectual property rights protections. Free trade agreements have helped to perfect proceedings and some rules. We have to look at the experiences of Chile and Peru on this issue. Chile has already signed a Free Trade Agreement, while Peru's FTA has not been ratified by the U.S. Congress. In neither country's FTA, however, were there substantive legal modifications; they only helped improve procedural matters.

The remaining parties affected by violations of intellectual property rights are the consumers. The violations of intellectual property rights would not be an issue if consumers did not exist. We must address the topic of costs in Latin America. While an original DVD is valued at around twenty dollars [U.S.], a counterfeit DVD can cost around three dollars [U.S.] to manufacture, and a DVD's content can be downloaded for free on the Internet.

There is a saying I have heard from someone who told movie picture companies, "Your product is too expensive. I, however, am

interested and able to buy it at a reasonable price as long as I don't pay attention to whether it is legal or not." This is the mentality that exists today in Latin America: "without caring about whether a product is legal or not, all I care about is my wallet." Carlos Alfaro was telling me that in Buenos Aires, near where he lives, there is a Blockbuster and next to this store, there is another store that sells movies before they open on first-run theaters. Without a doubt, this store does more business than Blockbuster. Steve may speak on the subject of consumer education. We need to educate consumers regarding the consequences of downloading counterfeit music and movies and purchasing counterfeit CDs and DVDs. We need to talk about advertising. These issues must be addressed by listening to all parties and assessing what can be done considering the motion picture companies, the artists, the state, and the economic reality faced by consumers.

To conclude, we think that in Latin America, at least in the countries we have studied, intellectual property rights are adequately protected despite enforcement difficulties resulting from technological advances. You might raid an illegal operation in a garage, but tomorrow the criminals buy another machine that will allow them to perform their activities across the street. Furthermore, protection levels are not the same in every country. We know that there are differences, and we should assist those countries with low levels of protection to improve their intellectual property legislation. Protection can be improved; many things can be improved. Almost no Latin American countries punish the customer for purchasing or downloading counterfeit materials, and I do not think this has affected foreign investment. This is one of the topics of this conference. We can say, however, that Latin American authorities do understand that good protection of intellectual property rights is necessary for economic development. Dr. Enrique Caverio will address this issue, but we think this awareness exists. Thank you very much for your attention.

DR. ENRIQUE CAVERIO: Good afternoon. Before beginning I would like to thank LexisNexis and the other organizers of this event for inviting me here. It is an honor and a pleasure to be with you today. I will begin the discussion of our topic quickly because we do not have that much time. To introduce it, I would like to put four basic principles on the table that I think other speakers have touched on.

First, according to our model, economic development is determined by the efficient implementation of a free market economy. Like all models, the free market economy has *sine qua non*

characteristics and requirements; without these characteristics, the market stops being a genuine model and stops functioning efficiently. One of these *sine qua non* requirements is the Rule of Law, judicial safeguards, the power of the law, or however we want to refer to it. In the model, this set of norms is aligned according to an economic point of view. Additionally, these laws are transparent, predictable, and preferably simple. They tend to be permanent. It is not enough to have good norms, however, if we do not have the system that ensures they are enforced. Although legislation and the rule of law are important formal components to this model, the efficient administration of justice is also essential.

Entering into the specific topic I am to develop, intellectual property is also one of the fundamental requirements of the free market economy model. Of course, I am not describing all the elements required in the free market economy model; I am only mentioning the most relevant. Intellectual property is a fundamental component of the market economy because, first, it is property. It is as fundamental, as any other type of property.

Let us examine the economic function of intellectual property rights in an economy. In the case of patents and copyrights, intellectual property right protections create incentives to maximize technological innovation and artistic and cultural creations. The protections generate incentives by ensuring that innovators and creators receive a part of the profit generated by their creations and innovation; this is the way incentives are generated. Innovation and creation are maximized while associated costs are minimized.

In the case of brands, the role of intellectual property right protection is even more fundamental. Brands facilitate or, I would say, allow; it is a tool that allows consumers' consumption decisions and empowers them to choose which products or services in the market will succeed and which ones will fail. Functioning in this way, brands are indispensable. Brands allow consumers to acquire a sovereign status, which is the position the consumer should have in the free market model. In the field of services, brands again allow suppliers to create incremental value through the course of time, by creating consumer recognition and the perception of quality. Brands generate reputation and investment. If a provider introduces a branded good or service into the market and maintains it at a level of quality, over time, the brand generates a reputation for the good or service. The brand allows the provider to condense and package this reputation into something tangible, generating greater value. In this way, intellectual property rights protection creates incentives to continue investment in future goods and services.

Without brands, providers would not have incentives to maintain and improve the quality of their products and services. Adequate protection of the intellectual property rights, then, has several effects. It encourages investment, which leads to greater economic development. Intellectual property protection promotes scientific and technological innovation, which also increases economic development. It encourages cultural and artistic development. Education, culture, and development bring quicker economic development. Intellectual property protection allows for the creation of reputation for suppliers' goods or products. This goodwill between consumers and producers increases the value of current and future products; the economy is worth more and consequently, it ultimately encourages more economic development.

Intellectual property protection maximizes consumers' access and use of information. Informed consumers create a more dynamic economy with fewer transaction costs, which also have a positive effect on economic development. International trade of physical goods, intangible goods, and technological goods has increased, and this increased flow of goods, services, and intangibles generates economic development. It is evident that there is a direct and clear relationship between the protection of intellectual property and economic development.

So, how are we doing in terms of intellectual property protection in Latin America? Is there protection or not? Are we doing the right things to generate economic development? My personal opinion is that the substantial protections of intellectual protection are fairly good, reasonable, and in line with international standards in Latin America. Most countries are participants in international agreements such as TRIPS, which is the World Trade Organization's disposition related to intellectual property. The Convention of Paris, for example, established a series of standards and procedures for equal treatment. The same thing occurred at the Pan-American Convention. In other words, the most important international agreements dealing with intellectual property are signed by the great majority of countries. The main substantive norms are recognized. I am going to provide as examples some of these basic intellectual property norms that exist in Latin America with respect to brands; these examples can also apply to patents and copyrights. Trademarks, for example, are protected by exclusivity rights, so that a brand owner has the right to prevent others from using the same or mistakably similar brand. There exist transparent, regulated methods to acquire these trademark rights. In some systems, an owner can obtain this exclusivity through usage alone. In Latin America, however, the prevailing way to acquire brand



rights is through registration; registration is the way of trademark acquisition in Europe and in most of Asia. There also exist norms that prevent the abuse of this right to registration, as in the protection of known brands, nullification of registrations made in bad faith, etc. All these protections are in agreement with international standards. Although use does not bring a constructive right for exclusivity, there still exists the obligation to use; when the mark is registered, after a determined time, if one does not use it, the brand or the registration is vulnerable to cancellation.

Beyond the strict criteria of brand protection based on registration and the principles of trademark confusion, there is protection available for brands that are not registered based on laws of unfair competition. These unregistered trademarks are protected once they have been introduced and have generated material goodwill in the market. Laws of unfair competition protect these unregistered brands against confusion, imitation, or exploitation of someone else's reputation. In most countries of the region, this protection is provided within the trademark law framework or by special laws. In all of these countries, authorities can issue precautionary and preliminary measures, such as injunctions, to avoid eventual intellectual property right infringement. The great majority of the countries have penal codes that criminalize fraud, falsification, and other intellectual property rights violations. Whether under civil code or other special code, countries everywhere have legal ways to claim compensation for harm and damages resulting from infringements to intellectual property. Juan spoke to the possibility of legal recourse, and while current regulations can be improved, they are generally within acceptable legal standards. Almost every country has measures in place at their borders whereby counterfeit merchandise that violates intellectual property rights, patents, brands, etc. can be confiscated, or at least detained by customs.

I have only provided a very general outline of the topic; going through the substantive rights of protection of brands in this region would go beyond the topic of the presentation. Moving on to the practical application of these laws, what authorities enforce these protections? Every country has administrative mechanisms empowered to grant trademark and patent registration. In most countries, civil courts are competent to deal with lawsuits and litigious processes related to intellectual property rights violations. In the great majority of countries, these are not specialized courts. In Mexico, Peru, and Ecuador, administrative bodies with expertise in intellectual property rights perform a quasi-judicial function over claims, but these claims eventually end up, or potentially end up, in civil courts.

So can we say, then, that in Latin America, we enjoy the full exercise of our intellectual property rights? I do not think so. We are not there yet. There are problems, and Juan's speech helped describe the real situation and what is happening on the day-to-day basis. There is a difference between what is established at law and what can be achieved in practice. For example, the time that it takes to register a patent or brand is excessive; it is too long.

Patent and trademark registration applicants get priority and protection against others that come claiming the same rights. But in current systems, one cannot exercise these rights against third parties until these trademark or patent registrations have been approved. In Latin America, trademark registration approval can take from eight months to three years, or longer. In the case of patents, registration takes much longer. Alternative dispute resolution for any kind of intellectual property right infringement or violation also takes a very long time. As I explained earlier, disputes over intellectual property rights end in judicial proceedings, and I do not have to tell you how long these proceedings can take in our countries. In addition, there is a lack of predictability, regarding what will be the ultimate decision and ruling of the court. There is tremendous uncertainty in outcomes.

Finally, there is an idiosyncratic problem in the region that I cannot help but mention. As Licenciado Juan Pittaluga clearly mentioned, there is a lack of respect for intellectual property; many forms of piracy are socially acceptable. What, then, are the opportunities for improvement? They exist, of course. It is not that we have perfect regulation; there is always something that can be perfected. There are opportunities in the legislative field, the main one being for countries in the region to integrate themselves into two agreements: the P[atent] C[oooperation] T[reaty]<sup>4</sup> for patents and the Madrid Protocol<sup>5</sup> for trademarks. These are essentially process-based agreements whereby just one application begins the application processes in all the countries that have signed onto the agreements. This process has not yet been accepted in Latin America<sup>6</sup> and if countries do sign the Protocol, it will obviously contribute to lowering the processing costs of trademark and patent registration. Such an agreement would avoid the problem of applicants having to go from country to country to protect their property rights. It would also allow

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4. Patent Cooperation Treaty, 28 U.S.T. 7645 (Jan. 24, 1978).

5. Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, 15 U.S.C. § 1141a(b) (2004) [hereinafter Madrid Protocol].

6. *Editor's Note*: The only country in Central and Latin America that has signed the treaty as of March 2008 was Cuba.

more people greater access to intellectual property such as trademarks and patents at lower costs. This is a great opportunity from the legislative perspective. These agreements, however, are not the most efficient way to sustainable economic development; the great opportunity is in the reform of judicial systems. This type of solution is not specific to intellectual property right protection; we are looking at judicial reform, to improve to some extent, all rights in our countries. For the full exercise of these rights, we need the efficient administration of justice that operates in a timely manner and at reasonable costs. The administration of justice should be widely accessible, transparent, and predictable.

Unfortunately, this is not the current situation in our region. Recent studies conducted in Latin America indicate that achieving efficiency in the administration of justice can increase the gross national product of a country by an average of 15% and increase the growth rate by 20-25%. For small to medium-sized companies, growth can increase from 20% to 40%, with an average growth increase of 33%. These numbers are important because small and medium enterprises involve about 70% of the economically active population. This measure, then, not only generates a tremendous amount of development, but also generates development in a more equalitarian way. This is preferable to what we see every day in countries with impressive microeconomic figures that do not affect the well being of all population sectors.

To conclude, for real and full exercise of intellectual property rights and for real qualitative advancement in this field in Latin America, the single intervention that would have the greatest impact would be to promote judicial reforms and to increase standards of efficiency. These steps would benefit those of us who want to promote intellectual property rights. The effects of this fight are not isolated; reforms would benefit society not just for the phonographic, cinematographic, and large software companies. Well, I hope I have not bored you too much. I appreciate being able to contribute this reflection. Thank you.

MR. HENRY HORBACZEWSKI: Hello, again. I am here today to talk about the United States' commercial policies and its use of intellectual property rights protections to support economic development. In the interest of full disclosure, my company, Reed-Elsevier, uses the Internet to aggregate, create, and digitize informational content from all over the world, for all types of scientists, producers, and lawyers. We have an international perspective.

International commerce has been affected by the enactment of free trade agreements in the Latin American region and left a substantial regional influence in Mexico, Chile, the countries of NAFTA, and the Dominican Republic. International commerce has also been influenced in countries with pending trade agreements, such as Peru, Colombia, and Panama. As I said before, basic intellectual property laws in some Latin American countries are not in very good shape. Within the treaty and trade agreement process, our company has emphasized issues in intellectual property laws that relate to e-commerce and digital content delivery. These issues include: the criminalization of copyright infringements, what we know colloquially as piracy, because we have found that civil remedies just do not do the job; the extension of international standards; and the normalization of domain name disputes resolution. Trademark law in these countries is not in good shape. Other issues that need to be addressed include: the national treatment of content delivered online; regulation of temporary copies made in downloads; remedies for the circumvention of technological protection; measures of technological protection; and liability limitations of Internet service providers.

It is necessary to make these changes in the law during the treaty process because otherwise legal change takes a long time. Even so, the treaty process can be lengthy. The Chile Free Trade Agreement was agreed upon in December 2002, signed and ratified in 2003, but the implementing legislation in Chile was not passed until this May 2007. The treaty was ratified in 2003 and it really took five years to get certain domestic laws amended to conform to the treaty. We believe that the time, the complexity, the lack of any political pressure from domestic creative industries mean that without the pressure of the United States government, there would not be the political will in our treaty partner countries to implement these laws. Even though we know that in the CAFTA-DR negotiations, there was this urgency by the countries, sans Costa Rica, to conclude the treaty, in reality, without U.S. external pressure, these are not politically appealing concepts with a lot of domestic traction. The FTA process promotes economic development by emphasizing implementation when it comes to drafting laws concerning the affected industries. In our case, through the International Intellectual Property Alliance, the fledgling domestic industries which don't have a lot of political clout to command legislative time and attention basically get a free ride into the treaty negotiation process. Obviously, the bilateral and multilateral obligations impose some check on domestic politics and my colleague Carlos Alfaro will inform you what is happening in the United States. The test of effectiveness of these treaties is not just whether they

increase foreign investment, but also whether they encourage the development of the domestic digital content industry in the other treaty countries. Thus, the next step in intellectual property rights will be when the next brilliant director from Mexico is going to do classical movies that capture the human condition and has a choice to do so in a Mexican context or in a U.S. setting. Having strong Mexican laws will enable him to practice his craft here in Mexico rather than leaving for Hollywood to do Harry Potter.<sup>7</sup> Otherwise, who will train the next generation of Mexican filmmakers in their crafts here in Mexico? Therefore, as I said, the test of whether this hypothesis is true is in fact the development of the creative industries in Mexico, in Chile, and in the other countries that have FTAs. Thank you very much.

FRANCISCO LUNA-ANAYA: Thank you, Henry.

MR. STEVE SOLOT: I am going to start with the preliminaries in Spanish and then we will move in to English. First, I would like to congratulate Henry for the excellent presentation and for touching on very relevant topics, such as the need to involve creative industries and the lack of commitment from these local industries to the advancement of the intellectual property right protection in Latin America. While I will not be addressing this topic in my presentation, it is very important issue for those of us that believe in this necessary commitment for developing countries.

First, I would like to thank LexisNexis and Mr. Kozolchyk for the invitation to participate in this important conference. My role here is to add some practical applications regarding the rule of law in Latin America as well as some positive examples of collaboration between the private sector and enforcement entities in Latin America. I will focus specifically on piracy and enforcement in the audiovisual sector in a few specific countries. I will now switch to English to address these topics.

I will address first what is the Motion Picture Association. Many of you have asked me what it is, and some of you are unaware of its purpose. I will very briefly mention, along the lines of some of Henry's comments, challenges in the digital area for the audiovisual industry related to business models and piracy; specifically, I will discuss a case study in Brazil with the CNCP, the National Anti-Piracy

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7. *Editor's Note*: Alonso Cuarón, a Mexican national, directed the film adaptation of "Harry Potter and the Prisoner of Azkaban" (2005).

Council in Mexico with the PGR, Attorney-General's office and IMPI enforcement efforts. Finally, I will briefly comment on the WIPO Development Agenda issue. What is the Motion Picture Association? This is it. These are the small companies that I represent in Latin America that operate worldwide in the production and distribution of audiovisual products and content. We have offices throughout the world and our Latin American regional office is in Sao Paulo, where I have been based for twenty-five years.

What are the activities of the Motion Picture Association? Primarily these and a number of other content-protection activities specifically related to digital topics. We also conduct training programs for judges, prosecutors, and filmmakers in Latin America. The audiovisual industry, as the traditional, conventional distribution pipeline for movies, faces piracy challenges. Its process begins with the cinema release in what we call the theatrical sector and ends with broadcast television or free TV or open TV. In the bottom of the cylinder, you can see the point at which and the relative proportion at which piracy erodes profit-making in each of these windows. Beginning with the cinema release going through VHS and DVD, pay per view and, finally, broadcast TV. Of course, this traditional pipeline no longer exists because of piracy, principally conducted over the Internet.

In the new era of digital content delivery, we now have various devices that offer digital content and, in some cases, still offer the analogue contents to the consumer. Our challenge is to make content available to consumers when they want it, in the format they want it in and, hopefully, some day at the price they are willing to pay for it. This is the challenge of the business model. There is substantial Internet penetration in Latin America with extremely high growth in broadband penetration in Brazil, Mexico, and Argentina. Growth between the last quarter of 2005 to the last quarter of 2006 was almost 45% in Brazil, 57% in Mexico, and almost 87% in Argentina, measured against the total for the Americas of 27-1/2%. There is good news and bad news. The good news is that there exist a few examples of online movie services which all provide legal product; unfortunately, the bad news is that most of these services are not available today in Latin America. They require that the consumer have a U.S. credit card and maybe require that the consumer be a US resident. One of the more successful services, CinemaNow, has over 2000 titles available for download. While this is still a very small number of titles, at least they are available legally and can be acquired online.

In Brazil, the National Council for Combating Piracy is a subordinate agency to the Ministry of Justice and is a unique body.<sup>8</sup> It provides opportunities for private sector participation together with the government sector. Represented on the Council are governmental ministries as well as private sector bodies, agencies, or sectors including us, the audiovisual industry. A number of other industries or branches, local branches of BSA, RIAA also have seats on this organization. There are also representatives of the Brazil's Senate and the House of Representatives on the Council. This entity was originally established in 2004 with an action plan dedicated to reinforcing education, and economic and institutional policies promoting intellectual property rights protection.

The Council's ninety-nine point plan was developed primarily as result of private sector pressure, not only from the IIPA<sup>9</sup> and private sector U.S. industries, but also local groups asking for very specific guidelines and policy orientation. Most of the actual enforcement activities, however, are carried on at the state level in Brazil. The most well-known enforcement activities are anti-piracy seizures of pirate product, including not only video and music, but also every type of pirate article that can be found in Brazil.

With regard to public education, the Council has been extremely active in promoting publication and education campaigns from the elementary school level to adults. Campaigns are centered on anti-piracy literature distributed nationwide, and contests which are co-sponsored with the private sector. We participate in these contests. "O barato sai caro" – that which is cheap turns out expensive - is one of the most successful campaigns promoted by the Council. There was a special demonstration of a steamroller that ran over pirated CDs and DVDs right in front of the National Congress in Brasilia. This is part of show business. Finally I have the standard poster used by the Council throughout Brazil, which is the symbol or virtual trademark of the Council used in all of its materials: "Pirata To Fora," "Piracy, count me out."

Next, I will speak about enforcement in Mexico and the Attorney General's Office and the Mexican Industrial Property Institute.<sup>10</sup> Here, the slides are in Spanish. I will just briefly comment

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8. For further information, see Conselho Nacional de Combate à Pirataria, <http://www.mj.gov.br/combatepirataria/data/Pages/MJD7CC848EPTBRNN.htm>.

9. For further information, see International Intellectual Property Alliance, [www.iipa.com](http://www.iipa.com).

10. For further information, see Instituto Mexicano de la Propiedad Industrial, <http://www.impi.gob.mx>.

in English. Considering the inherent nature of piracy and the informal economy in Mexico we are dividing the piracy problem into these areas: (1) criminal practices; (2) commercial regulation; (3) consumer habits and the types of actions (criminal, criminal administrative, administrative and commercial) which may be employed to deal with each one; and, (4) educational and commercial actions combined. What are the Mexican government entities that can be used to attack piracy in Mexico on each of these four fronts? From the perspective of the audiovisual industry and many of the private sector industries with which we are allied in Mexico, criminal actions can be addressed by the PGR,<sup>11</sup> the Attorney General's Office, and the Judicial Police in the states. Administrative actions can be advanced by customs, the Mexican Industrial Property Institute, the copyright office, and retail commerce regulatory offices in the municipalities. Commercial actions will be best promoted by the industrial sectors and the economic development offices in each of the states. Finally, educational initiatives can come from the Secretary of Education and the state education offices.

The PGR itself, the Attorney General's Office in Mexico, is really the primary enforcement agency for intellectual property rights protection, at least for our sector and many of the sectors with which we are allied. The *Investigación Previa* or the Investigative Inspection is the primary tool that can lead to investigation. Complaints to this office must be filed by the private sector. To date, there is no *ex officio* legislation on Mexico, although we have been lobbying in Congress for an *ex officio* bill that we hope to see passed before the end of the year. Since 2001, the PGR has dismantled 215 labs and seized over 6000 DVD burners over 1000 CDR burners and almost 2000 VCRs which would have resulted in a 170 million pirate films released into Mexico. All of this work with the PGR needs to be coordinated with other agencies, such as IMPI. IMPI also has copyright jurisdiction for administrative actions, and we have been working very closely with IMPI and Mexico for some time. The inspections from 1999 to 2005 reached over 4000 video outlets and included almost a thousand hotels. The IMPI has an official budget for operations and it dedicates a lot of its work to trademark operations through basic avenues, including the audiovisual industry and the administrative aspect of the music sector.

I also want to briefly mention the National Anti-Piracy Agreement,<sup>12</sup> the rough Mexican equivalent to the CNCP in Brazil.

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11. For further information, see Procuraduría General de la República, <http://www.pgr.gob.mx>.

12. For further information, see Acuerdo Nacional contra la Piratería, available at <http://www.ordenjuridico.gob.mx/Federal/PE/PGR/Acuerdos/>



This agreement was signed by the president in 2006, and even without official bylaws or enacting statutes, the PGR participates and enforces it both locally and nationally. The private sector participates as well and is currently promoting anti-piracy agreements at state level. The state of Mexico signed an agreement on March 29 this year. State agreements operate in the same fashion and with the same objectives of combating piracy, recovering merchandise from the black market, and promoting education initiatives. We are also initiating a similar agreement at the municipal level. The first municipal anti-piracy agreement was signed this May in Toluca (a city very close to Mexico City).

Now, I will briefly address the WIPO Development Agenda.<sup>13</sup> You might wonder why the Motion Picture Association and other private sector groups would be interested in the WIPO Development Agenda. I think the point was made about the very close relationship between protection of IP and incentives, foreign investment, and the expansion of commercial operations and licensing. These issues are addressed in the WIPO Development Agenda.

Back in 2004, Brazil and Argentina promoted the concept of the Development Agenda, which many of us in the private sector considered worrisome, if not a real threat. The Development Agenda advocated that developing countries be given special consideration and promoted the so-called "flexibilization" of copyright protection and enforcement for developing countries. The development agenda would limit developing countries' obligations for implementing IP protection so that businesses, creators, and other IP owners in those countries would not be able to rely on the minimum standards of intellectual property protection enjoyed by their counterparts in developed countries. Together with many of the private sector groups, we have been expressing serious concern about IP protection for quite sometime. In one of the last development agenda meetings of the Provisional Committee on Proposals, the subject was advanced, and there was an agreement made to officially incorporate the concept of the development agenda into WIPO. The annex of that last agreement is broken down into sections A, B, C, D, E, and F, and we will not get into the details of them here. In each of the cases, there is good news and bad news. Good news in the sense that we see the status of developing countries in the areas of IP protection and enforcement. At the same time, we see the specific limitations of copyright protection

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2007/06032007(1).pdf (last visited Apr. 13, 2008).

13. For further information, see World Intellectual Property Organization (WIPO) Development Agenda, <http://www.wipo.int/ip-development/en/agenda/> (last visited Apr. 13, 2008).

and especially enforcement in these countries. Finally, the politics of the WIPO Development Agenda first brought forth by Brazil and Argentina and then joined later by India under the banner of the Friends of Development lent support to the so-called Radicals Club against the fourteen other countries that were more moderate. This moderate group, which included Mexico and the United States, had been trying to provide for a more moderate focus, while still retaining as much intellectual property protection and enforcement potential through WIPO as possible, given the polemics.

At this point, I would like to move to the educational aspect of IP protection and show you the types of messaging that we have been using in the United States and in Latin America. First, I would like to show you a spot that we have created, a short spot, which has been used primarily in the U.S.:

ARNOLD SCHWARZENEGGER: Jackie and I are on a mission to stop piracy.

JACKIE CHAN: If this were our movie, we could take on the bad guys ourselves.

ARNOLD SCHWARZENEGGER: But this is the real world, we need your help.

JACKIE CHAN: When you buy pirated movies and music, you support criminals.

ARNOLD SCHWARZENEGGER: Now these criminals are counterfeiting other things like electronics and medicines.

JACKIE CHAN: Take action.

ARNOLD SCHWARZENEGGER: Demand the real thing.

JACKIE CHAN: Help us stop piracy

ARNOLD SCHWARZENEGGER: Let's terminate it.

This is an example of a spot that is very effective in the United States. We were told, however, that this would not work in Latin America despite the fact that the personalities shown do attract a lot of attention. We have been very careful about the type of messaging that we use. In an attempt to overcome potential public resistance or ridicule, we developed a different approach for use in Mexico and all the Latin American countries. Here is an example:

MAN: How are you, huh champ? Your dad's so smart – he bought you a bootleg movie. It's not even in theaters yet!

BOY: I'm also smart.

MAN: Oh yeah? Why?

BOY: 'Cause I got a 10 bootleg.

MAN: How distressing.

BOY: I copied it from my friend Luis, and I got a 10, bootleg, just like your movie.

ANNOUNCER: Pirated movies are a bad move that make you look like a better dad. What are you teaching your kids?

This latter spot is an indirect ethical and family-oriented approach highlighting parents' responsibility to educate their children. With that, I would like to close. Thank you for your attention.

DR. CARLOS ENRIQUE ALFARO: First of all, thank you very much for inviting me to be a part of this event. I would also like to thank LexisNexis for their effort to promote the rule of law within every country of the world. I apologize for preparing and giving my presentation in English even though I am a Latin American. I am going to talk about a very special case called the United States–Section 211 Omnibus Appropriations Act of 1998.<sup>14</sup> This case is important because it involves the United States, Cuba, the European Union, the World Trade Organization, and the Agreement on Trade-Related Aspects of Intellectual Property of 1985, or TRIPS.<sup>15</sup> TRIPS is important because it can trigger retaliatory measures and can be used as an excuse by other governments to violate existing IP regulations. What caught our attention about the *Bacardi* case was the fact that the United States is charged with violating the very same international trademark protections that were historically created to protect the United States from abuses of other less-developed countries in the 20th century.

It has been claimed and disputed (in court cases and under the WTO-DSB) that Section 211 violates the Inter-American Convention of 1929 and the WTO Treaty of 1995 and provides both Cuba and the

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14. Report of the Appellate Body, United States–Section 211 Omnibus Appropriations Act of 1998, WT/DS176/AB/R (Feb. 1, 2002); Report of the Panel, United States–Section 211 Omnibus Appropriations Act of 1998, WT/DS176/R (Aug. 6, 2001) [hereinafter *Bicardi*].

15. For a factual statement and the substantive legal issues at the U.S. District Court level see Stephen J. Kimmerling, *Havana Club: A Case Summary And An Analysis Of Selected Legal Issues*, CUBA IN TRANSITION: ASCE 1999, available at <http://lanic.utexas.edu/la/cb/cuba/asce/cuba9/kimmerlg.pdf>. For a legal analysis at the WTO level see Raj Bhala & David A. Gantz, WTO Case Review 2002, 20 ARIZ. J. INT'L & COMP. L. 198 (2003).

European Union with the legal basis for denying protection to U.S. trademarks in their territories. First, it is important to clarify that despite the political hostility between the United States and Cuba, both countries have respected the intellectual property rights they helped establish at the Inter-American Convention. More than 400 American companies have registered close to 5000 trademarks in Cuba, such as McDonald's, Coca-Cola, Pepsi, and even Starbucks. This number is increasing as restrictions on sales to Cuba are expected to be lifted in the near future. On the other hand, Cuban trademarks have also been registered in the US Trade Office for many years without issue. But this situation can change with the *Bacardi*<sup>16</sup> case. As I said before, the legislation could set up a precedent that other countries can use to cancel trademarks or to interfere for political reasons with intellectual property rights. Arab countries could cancel trademark rights for companies friendly to Israel. Pakistan could do the same with countries friendly with India. Curiously enough, Brazil is presently studying a congressional bill that authorizes the president to temporarily apply sanctions to companies and citizens of any country against which the WTO has authorized Brazil to take retaliatory measures. Sanctions could remain in place until the offending country abides by the WTO's curative directives and become available to Brazil.

Allow me to provide little of history about the *Bacardi* case. The conflict began when leaders in the Cuban revolution expropriated all company-owned property. The two companies that produced rum in Cuba were the Havana Club owned by the Arechabala family and Bacardi, owned by the Bacardi family. Both lost their companies and they went into exile in the United States. Although the Arechabala family kept its trademark for a while, they allowed it to expire in 1973 (even though renewal would have probably only cost them \$25). When the Arechabala family lost their company in Cuba, they applied and obtained trademark rights in the United States in 1976. Later, they formed a joint venture with Pernod Ricard from France and founded the Havana Club Holding. They transferred the trademark rights to the holding company, and the joint venture eventually registered its trademark in 183 countries. Meanwhile, Bacardi transferred its distillery operations to Puerto Rico in order to secure tariff benefits on a territory that technically belonged to the United States. This move allowed the firm to maintain its brand name when it left Cuba. The Bacardi headquarters were then registered tax-free in Bermuda and

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16. For a discussion of the Bacardi litigation, see Kimmerling, *Havana Club: A Case Summary And An Analysis Of Selected Legal Issues*, *supra* note 15. See *Havana Club Holding, S.A. v. Galleon S.A.*, 961 F. Supp. 498 (S.D.N.Y. 1998) (otherwise known as the start of the *Bacardi* case).

were later moved to Miami. In Miami, Bacardi became a very important company by establishing strong political connections. In the mid-90's, however, the sale of Havana Club through Cuba Export Pernod Ricard's venture exceeded sales of Bacardi in Europe, and Havana Club sales became a threat to the sales of Bacardi all over the world. Then, Bacardi began to sell Havana Club brand rum, which it produced in the Bahamas through a joint venture called Galleon, Bacardi & Co. Havana Club International sued Bacardi in the Southern District of New York and Bacardi temporarily stopped selling the Havana Club trademark in the United States. Bacardi then found the Arechabala family heirs in Spain and sought to form a joint venture or buy their trademarks or some kind of rights so that Bacardi could sell Havana Club rum in the United States. As a result of Bacardi's efforts, Jose Arechabala International was founded in Liechtenstein in 1997 and this new company sold Bacardi trademarks that the Arechabala family had long since relinquished. Less than one year after, by coincidence, Senator Forforia introduced Section 211 to prohibit Cuban nationals or their known Cuban successors in interest from protecting certain trademarks or trade names in the United States. Under Section 211, unless the original owners have explicitly consented, the US Patent and Trademark Office is prohibited from accepting or renewing registration applications (for trademarks, trade names, or commercial names) presented by Cuban nationals or their successors in interest who acquire the trademark or trade names from the Cuban government where the trademark or trade name had been used in connection with property confiscated without compensation on or after January 1st, 1959.

Section 211 also prohibits US corporations from considering any false order or enforcing trademarks or claims of Cuban nationals or their successors in interest. Section 211 was challenged by the European community as being inconsistent with U.S. obligations under the Agreement on Trade-Related Aspects of Intellectual Property of 1985, or TRIPS.<sup>17</sup> A World Trade Organization panel rejected most of the EC's claims except in deciding that Section 211(a)(2) was inconsistent with Article 42 of the TRIPS Agreement. Both the European Union and the United States appealed the decision, and the appellate body of the WTO held that Section 211 was not inconsistent with Article 42 but was inconsistent with (1) the national treatment requirements of the TRIPS agreement and the Paris Convention as amended in 1967, and (2) the most favored nation requirements of the TRIPS agreement. Under articles 21 and 22 of the understanding on

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17. 33 I.L.M. 81 (Apr. 15, 1994).

the rules and procedures governing the settlement of disputes, the WTO member whose measure is found to be inconsistent with WTO obligation must inform the DSB of its intentions with regard to the implementation of the rulings and recommendations of the DSB. The implementation is to take place within a reasonable period. The WTO has since requested that the U.S. alter its legislation in accordance with the appellate ruling. In March 2002, the U.S. agreed to comply with the WTO requirements by January 2003. Since then, however, the U.S. has requested several extensions. The international treaty, international property rights, and international law give states the right of retaliation if violations continue. If the U.S. Congress does not in due time approve a law that modifies Section 211 and comply with the international tribunal decision, Cuba has the right to retaliate against U.S. trademarks in Cuba. Cuba could, for example, sell its version of U.S. trademarked photos in island stores. These photos could filter in other markets and could produce similar situations to the photographs that we saw recently in Brazil. Others feel that the Bacardi case and the U.S. delay in adopting the WTO recommendations could set the precedent for other countries to cancel trademarks or play politics with international law. Fortunately, Section 211 was inactive, and Cuba has not attempted to violate the intellectual property protection of the U.S. trademarks. It is waiting for the enactment of the U.S. law that will modify Section 211. However, if Section 211 is not amended, Cuba will likely retaliate and jeopardize the potentially profitable future trade between the U.S. and Cuba. Thank you.

LIS. FRANCISCO LUNA-ANAYA: Thank you to all the panelists and especially to Henry for your participation and your presence.

DRA. MACARENA TAMAYO-CALABRESE: With this last panel, we close for today. Thank you.

