

PRIORITY PRACTICES

III. PRACTICES VIOLATING THE NAFTA

MEXICO¹

Mexico adopted a new copyright law effective March 1997, and subsequently made important amendments to it and to the Penal Code, which came into force in May 1997. While this legislation contains some significant improvements, the law fails to remedy some existing NAFTA inconsistencies and creates some new ones. A number of the deficiencies, particularly in the substantive copyright law, are detailed in the Mexico Country Survey elsewhere in this submission.

Detailed below are deficiencies in the Mexican enforcement system which we view as inconsistent with NAFTA. For the most part, the new law does not explicitly correct, or even address these deficiencies, but it is possible that the courts, in applying the new law, could do so in a manner that will be more NAFTA-consistent.

1. CRIMINAL PROCEDURES AND PENALTIES — NAFTA ARTICLES 1714, 1716 AND 1717

In addition to the lack of effective provisional measures in criminal cases discussed below, the criminal justice system in Mexico simply does not work effectively to deter piracy and does not satisfy Mexico's obligations under Articles 1714, 1716 and 1717. The system is not transparent, criminal remedies are not expeditious, and piracy is almost never actually prosecuted (after the initial search and seizure) and, in our experience to date, almost never punished. For example, in the recording area, over 1,600 raids have been initiated since 1993 but in no more than 25 of these cases have sentences been imposed. Even in these, there were only very small fines (none higher than \$1,000) and no jail terms.

Resources devoted to anti-piracy enforcement are simply not sufficient to control the problem, and prosecutions and deterrent penalties have not been obtainable as a practical matter. The following are some of the specific deficiencies in Mexican criminal procedure:

Criminal Action Filing Procedure. There should be filing procedures for denuncias or criminal

¹See also IIPA's separate Country Survey on Mexico.

complaints that assure that the confidentiality of the denuncia is preserved until such time as the prosecutorial authorities move to collect and/or verify evidence. This is especially important in copyright actions, where the evidence of infringement will disappear the second that the infringing party becomes aware of the denuncia or action. In the present environment, as will be shown below, the confidentiality of criminal complaints and other files is never assured.

Fixed Time Periods. At present there are no effective time periods governing action on a denuncia by the criminal justice authorities.² The result is that cases move randomly through the system, if at all. Often, there will be no prosecutorial movement on a denuncia unless there is constant attention by lawyers for the complaining party, which makes any criminal action very expensive. In the United States and Canada, the justice authorities virtually always act on a motion for an ex parte injunction seeking the search of stated premises within one week of filing with the authorities. Clearly, the Procuraduria General de la Republica (PGR) should be required to seek a search warrant (*orden de cateo*) on a complete criminal complaint within 30 days of filing, and to execute the search warrant within two days of its issuance.³ The penalties faced by the criminal authorities for failure to observe such time periods should be severe, and the PGR's requirements for what constitutes a complete file that is ready for action by the authorities should be simply stated and should not be unduly complicated.

Within thirty days from the execution of a search warrant, all expert reports should be issued and all testimony taken. Within an additional thirty days, if the evidence indicates that intellectual property infringement has occurred, the criminal authorities should be required to seek an indictment (consignación) before the court of competent jurisdiction.⁴

²The lack of time periods mean that no remedies are expeditious, in violation of NAFTA Article 1714(1), and unwarranted delays are virtually guaranteed, in violation of NAFTA Article 1714(2).

³In addition, the delays, leading to the destruction of necessary evidence, violate NAFTA Article 1716(4), which empower judicial authorities to order provisional measures on an ex parte basis where any delay is likely to cause irreparable harm to the right holder or where there is a demonstrable risk of evidence being destroyed. Arguably, one could also find a violation of NAFTA Article 1717(2), which empower the judicial authorities to order the seizure of infringing goods in appropriate cases.

⁴The time periods should not become an excuse for shoddy or incomplete work by the authorities, however. The time periods stated above are ample for careful development of each action. If job security is linked to performance, and time periods are fixed, a functioning criminal justice system becomes a possibility.

Transparent Procedures. Mexican criminal procedures are often unfathomable, intricate, ad hoc and seemingly random. When the PGR wishes to move a high profile case forward rapidly, the wheels of “justice” can move with dizzying speed, and suspects can be seized on what would appear to be flimsy grounds, as the news media have showcased in the past with respect to murders of top politicians. Most cases outside of media purview move at a snail’s pace, and the procedures imposed seem, as mentioned above, random and ad hoc. This appears to suit the needs of the authorities, who can always block any movement by imposing yet one more procedure, one more inspection, one more file review, one more writ or *acta*, or one more expert report. It is this absence of transparency that makes being subject to any PGR process strike fear into the hearts of ordinary Mexicans. Ironically, the principal deterrent value of criminal actions in Mexico may be that the Byzantine procedures and sense of pervasive unfairness that characterize the PGR and the overall criminal justice system mean that defendants frequently seek to settle with the moving party, if at all possible, in order to attempt to remove themselves from the PGR’s jurisdiction.⁵

Affordable Procedures. Measures must not be unduly costly or entail unwarranted delays whether or not the infringing activity takes place in Mexico City or elsewhere in the Republic. At present, if one wishes to bring an infringement action outside of Mexico City, particularly in a context requiring a modicum of technical competence, an even further elevated level of cost and delay must be confronted. Copyright violations are federal violations, as in the United States, and the PGR has centralized most activities in the capital, despite its offices or delegations throughout the Republic. It has been the experience of both BSA and RIAA that targets outside of Mexico City may be handled initially by prosecutors from Mexico City. Files may be moved to and from Mexico City, and consequently, there is a likelihood that they will be lost outside of the City. Thus the cost of sustaining actions outside of Mexico City is often greater than the cost of proceeding against a similar target in the capital, which would appear to violate the NAFTA requirement that the cases not be unnecessarily complicated or costly.⁶

Protection of Evidence. Measures must be adopted to safeguard evidence still in the possession of the defendant, and also to safeguard evidence in the hands of the authorities. NAFTA authorizes provisional measures on an ex parte basis, in particular where there is a demonstrable risk of evidence being destroyed.⁷ Even more disturbing are the losses of evidence in the possession of the PGR after a search and seizure has been conducted.⁸ While the NAFTA

⁵In mild defense of the PGR, certain departments function better than others. For example, there is a geographic division to criminal enforcement; The country is divided into three zones. Penal Proceedings “A” (including Mexico City and Monterrey), “B” including Guadalajara, and “C,” each headed by a Deputy Attorney General (Subprocurador). Not only does Zone A function better than the other zones, but it has its own intellectual property prosecutor, which the other criminal enforcement zone chiefs have never appointed. This also shows, unfortunately, the ad hoc nature of Mexican criminal procedures.

⁶NAFTA Article 1714(2).

⁷NAFTA Articles 1716(1) and (4), and Article 1717(2).

⁸This loss of evidence in the hands of the PGR has happened repeatedly. A relatively recent example from the software industry involved a criminal denuncia by several BSA members against a well-known accounting firm, De la Paz & Costemalle. There

provision is really focused on evidence in the possession of the defendant, the loss or destruction of evidence in the hands of the authorities is even more harmful to the interest of justice. To the extent that the Mexican authorities lose evidence, whether intentionally or

was a successful search and seizure demonstrating substantial illegal use of BSA member company software, but the prosecutor (Ministerio Publico) in charge of the case managed to “lose” most of the evidence of infringement, and the defendant was thus indicted on the basis of one software program, which proved easy for the defendant to overturn. This loss of evidence is believed by the BSA and its lawyers to have been intentional, exposing the risk of corruption which afflicts criminal prosecution.

through incompetence, Mexico clearly violates the requirement of expeditious remedies to prevent infringement, as the loss of evidence is tantamount to the elimination of the remedy.

Deterrent Penalties. Deterrent-level penalties must be available for copyright violations. Not only must the statutory penalties be adequate, but they must be imposed in practice. The IIPA is not insisting that Mexico provide deterrent-level penalties of imprisonment and monetary fines, as NAFTA does not insist on both. But the Mexican authorities must provide at least the deterrent penalty of imprisonment, or deterrent-level monetary penalties. The new law provides the same jail terms as in the old law—six months to six years, but fines have been elevated from a ludicrous 50 to 500 times (US\$170 to US\$1,700) the minimum daily salary to 300 to 3000 times (US\$1,015 to \$10,140). While this is an improvement, these fines still remain too low. We are encouraged by the recent (November 1998) announcement to further increase criminal penalties in the law. However, this change would still not solve the problem that even the lower penalties have never been imposed in practice.

Moreover, there is no justification for much higher penalties and fines for administrative trademark violations than for copyright violations, but that is the status quo in Mexico.⁹ While the NAFTA text does not specify penalty levels, it states that the penalties available shall include imprisonment or monetary fines, or both, sufficient to provide a deterrent, consistent with the level of penalties applied for crimes of a corresponding gravity.¹⁰ The new copyright law prescribes criminal penalties of imprisonment of from six months to six years for most forms of piracy that afflict the copyright industries.¹¹ Mexican judges can choose not to impose prison terms in favor of imposition of a fine. But because the IIPA members' denuncias have moved so slowly, virtually no cases have reached the sentence phase.¹²

⁹For example, the imprisonment penalty under the Industrial Property Law is from two to six years, instead of six months to six years under the federal copyright law.

¹⁰NAFTA Article 1717(1).

¹¹Ley Federal de Derechos de Autor, art. 424.

¹²In a rare exception to this rule, in a 1993 criminal case by BSA members against PC Mayoristas/Electron, a sentence was imposed at the end of 1998 by a judge after five years of prosecution and tens of thousands of dollars in legal costs to the moving parties: a six-month prison sentence and a fine of approximately \$70. Under Mexican criminal procedure the six-month prison sentence can be "bought-out" for one minimum daily wage (at that time \$1.40) times 182 days, an additional grand amount of \$260, for a total of \$330.

To demonstrate the inadequacy of the imprisonment penalty, one need look to “crimes of a corresponding gravity.” Illegal reproduction of someone else’s intellectual property is a form of theft. In the case of actual property theft, the prison terms depend upon the value of the item stolen. If the value is equal to or more than 500 times the minimum daily salary in the Federal District (an aggregate value of US\$1,690), the imprisonment range is from four to ten years.¹³ So the theft of a few software packages could result in a serious prison term that must be imposed, as explained below, whereas the illegal reproduction of a much greater quantity (and value) of the same computer programs, which is merely theft in a slightly different form, yields a prison term of from six months to six years, and the judge is free to release the defendant on bail.

With respect to monetary fines, the Mexican law imposes criminal copyright fines of from 300 to 3000 times the minimum daily salary in the Federal District.¹⁴ At current exchange rates, this means that maximum fines are from approximately \$1,000 to \$10,000 for copyright infringement, levels that remain below what is needed for true deterrence in any system. With respect to “administrative copyright violations” set forth in the Copyright Law and under IMPI’s jurisdiction, fines reach a maximum of 10,000 times the minimum daily salary in the Federal District, or approximately \$30,000, although in practice fines at this level are unheard of. By contrast, under the Industrial Property Law, criminal fines for trademark or patent infringement, which would appear to fall squarely into “crimes of corresponding gravity,” are set at more deterrent levels of up to 20,000 times the minimum daily salary in the Federal District, an amount just over \$60,000. Administrative sanctions under the Industrial Property Law are just as severe, running from 10,000 to 20,000 the minimum daily salary, or from \$30,000 to \$60,000, a level which might actually deter infringement, were it ever imposed. Some of this discrimination will be corrected if the new criminal law proposal passes in 1999.

2. CIVIL AND ADMINISTRATIVE REMEDIES: NAFTA ARTICLES 1714 AND 1715

As noted above, the new law does not contain any express civil remedies. However, the argument is made that NAFTA is self-executing and those provisions would govern. Even if this is true, NAFTA is a treaty, not a civil code and judges are in practice unfamiliar with applying treaties in private disputes. There has always been a question under Mexican practice whether injunctive relief (or, for that matter, civil *ex parte* search remedies) are available in copyright cases. The absence of any legal provisions in the copyright law is certainly not more likely to resolve this problem. However, for purposes of the analysis below, we will assume that civil remedies continue to be available in Mexico for copyright infringements.

¹³Mexican penalties work as follows: the minimum and maximum term are aggregated and divided by two. If the quotient is five or greater, the defendant cannot be released on bail. In the case of the theft of property worth \$1,600, with an incarceration penalty of from 4 to 10 years, the 4 and 10 would be aggregated, and then divided by 2, yielding a quotient of 7. Since this is greater than 5, the judge would not release the defendant on bail; a prison term would be imposed within the stated range. The same is not the case when the copyright law penalty of six months to six years is applied (which yields a quotient of three years, three months, which is less than five, and thus the defendant will be released).

¹⁴The minimum daily salary in the Federal District is currently about \$3.38.

To the best of our knowledge, only the recording industry has brought civil copyright cases in Mexico.¹⁵ All other anti-piracy actions have been administrative or criminal. However, it has long been reported that civil remedies are slow and difficult in Mexico. Procedures are reputed to be non-transparent and it is difficult to obtain full compensation for the infringed party. These deficiencies would violate the general provisions of Article 1714 dealing with the availability of “expeditious remedies,” procedures which are “not unnecessarily complicated or costly,” and “do not entail unreasonable time-limits or unwarranted delays.” Violations may also exist of the specific procedural provisions of Article 1715 dealing with the availability of provisional remedies such as injunctions (see below) and compensation for damages.

BSA and IDSA have had some experience in the trademark area using the administrative remedies and resource of IMPI, the Mexican Institute of Industrial Property (former Patent and Trademark Office). BSA has taken a total of 95 cases to date before IMPI as part of its strategy to deal with pirate retailers and end-users. BSA had reported an encouraging level of cooperation by IMPI, and its 1998 results have been even more encouraging. While IMPI has new authority in the area of copyright established in the amended law which went into effect in March 1997, staff and budget requirements have not been fulfilled. IIPA has recently learned, however, that IMPI’s increased appropriation has been approved and it now remains for Hacienda to approve the new staffing. In spite of this welcome development, it is likely to take many months for IMPI to be staffed up to run copyright raids.

3. PROVISIONAL MEASURES: ARTICLE 1716

As to the availability of injunctive relief in civil cases, IIPA member experience has been limited though, as noted above, it is widely reported that injunctive relief is unavailable for IP violations as a practical matter, even though this is a requirement of Article 1716.

Among the most significant enforcement problems is the continuing unwillingness of many Mexican judges to issue ex parte search orders in appropriate criminal cases. Moreover, BSA and RIAA have in the past reported major delays (weeks, even months) between getting a search order from the judge and having it executed by the PGR, increasing costs and the opportunity for leaks. Similarly, it has often taken the PGR weeks and sometimes months to seek a warrant after a complaint is brought to it by a copyright owner. BSA and RIAA have reported that judges have often rejected such requests for warrants and have required specific evidence far beyond what is normally needed to secure such a warrant in most jurisdictions. Often extensive proof rather than appropriate circumstantial evidence is required. In some cases, while the PGR has been relatively prompt in requesting warrants, it has taken the courts weeks to issue them, while the possibility of changes in the pirate’s operations continue daily. The entire process of securing from judges and getting the PGR to execute ex parte search warrants is rife with problems, though this year this problem has appeared to diminish with some improvements in the overall PGR attitude toward

¹⁵Ten cases were brought against CD rental shops. The federal civil courts refused to hear these cases (copyright infringement is a federal offense and the courts should have heard them) and remanded the cases to the local Mexico City courts. The results were so unsatisfactory that, after a year of delay, seven of the cases had to be settled and three withdrawn. Absolutely no progress was achieved during this period.

copyright piracy . What evidence must be presented is unclear and the PGR very often takes too long to seek warrants and to execute them. All in all, this remedy has not been available to copyright owners in a manner that meets the “prompt and effective” NAFTA obligation under Articles 1714 and 1716.

4. BORDER ENFORCEMENT: ARTICLE 1718

We have very little information on the extent to which Mexico’s system is effective. The recording industry has been working with the Finance Ministry to obtain information from Mexican Customs on the identity of importers of the vast quantities of blank tape stock used by the pirates but this effort has not yet borne fruit. Mexico’s border enforcement obligations under NAFTA went into effect on January 1, 1997.

Mexico must refocus its attention and give major priority to enforcement if it is to bring its copyright regime into compliance with its NAFTA obligations. IIPA will continue to monitor Mexico’s progress in this area, under its new law and the recent changes just proposed.

CANADA

In April, 1997, Canada enacted an extensive revision of its Copyright Act. The legislation includes several highly objectionable provisions that are — or, when they are brought into force, will be — inconsistent with Canada’s obligations under the North American Free Trade Agreement (NAFTA). These include:

- The new legislation establishes a levy on blank audio recording media from which authors and performers of musical works, and producers of sound recordings, may draw an equitable remuneration for private copying of their works or recordings. While Canadians are automatically eligible to receive the producers’ or performers’ share of this levy, foreigners can only participate on the basis of reciprocity. Since U.S. law has no comparable levy, U.S. recording companies and performers are not eligible to draw from the Canadian levy. This discrimination against U.S. right holders violates Article 1703 of NAFTA.

- The legislation establishes a right of remuneration for telecommunication of sound recordings to the public. By substituting a right of remuneration for the producers' exclusive "right to authorize or prohibit the direct or indirect reproduction of their phonograms," this provision is objectionable under Article 1706.1 of NAFTA to the extent it is applied to on-demand or interactive digital services, in which sound recordings are telecommunicated to the public in a way that necessitates the making of reproductions in the telecommunication process and that facilitates the making of reproductions by end-users. Furthermore, the right of remuneration generally applies only to recordings fixed within, or by nationals of, Canada or a country belonging to the Rome Convention. Since the U.S. does not belong to Rome, U.S. producers would be denied the remuneration available to Canadian producers, a blatant violation of Article 1703 of NAFTA.¹⁶
- Section 58.1 of the Act as amended appears to render unenforceable all pre-existing assignments or licenses that purport to transfer an interest in any "right conferred for the first time by" the 1997 amendments. Since the amendments "confer" a number of new rights, including rights of remuneration for performers and producers, the impact of this new provision could be sweeping, and its application quite disruptive to normal commercial practices. Implementation of section 58.1 could certainly violate Article 1705.3 of NAFTA, which guarantees the free transferability by contract of all copyrights and related rights.

¹⁶Section 20(3) of the Copyright Act as amended allows the U.S. to ask Canada to extend the right of remuneration to its performers and producers, but only for performances and recordings of non-musical works. As one Canadian commentator has aptly put it, this "exceedingly cute section . . . waves a red flag at the United States." Brunet, "Canada Revises Its Copyright Act," Copyright World Issue #66, at 43, 45 (January 1997).