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NOTES

Making Intellectual Property Pirates Walk the Plank: Using "Special 301" to Protect the United States' Rights

I. INTRODUCTION

In recent years, the United States' dominant position as a leader in world trade has eroded significantly.¹ The United States' appetite for imported goods has consistently outpaced exports for most of the last ten years, creating an enormous trade deficit.² Many economists consider this trade deficit to be detrimental to the health of the United States economy, blaming it for the devaluation of the dollar, the rise of interest rates and large fluctuations in the stock market.³ Accordingly, a primary focus of U.S. trade strategy has been the reduction of this trade deficit, predominantly by boosting exports.⁴ Trade experts perceive foreign barriers to trade as major impediments to growth in exports, and consequently, these barriers receive the most attention.⁵

Many private sector and government leaders in the United States have cited the foreign piracy of intellectual property as a major barrier to U.S. exports.⁶ Numerous U.S. industrial products and artistic works are routinely duplicated in foreign nations,⁷ even though such

1. Tyson, *Trade Deficit Has Lethal Fallout*, L.A. Times, Apr. 2, 1989, § IV, at 2, col. 4.

2. Pine, *America's Import Addiction*, L.A. Times, Nov. 19, 1989, § D, at 1, col. 2. The trade deficit is the difference between net exports and net imports. The United States annual trade deficit for 1988 amounted to \$137.9 billion. INTERNATIONAL MONETARY FUND, DIRECTION OF TRADE STATISTICS YEARBOOK 402 (1989).

3. *Worry over Trade Deficit Helps Drive Dollar Lower*, L.A. Times, Jan. 4, 1989, § IV, at 4, col. 1; Redburn, *Stocks Plunge 101 As Trade Gap Rises, Unexpected Hike Pushes Interest Up, Dollar Down*, L.A. Times, Apr. 15, 1988, § I, at 1, col. 6.

4. Peterson, *Analysts See Need for Further Cuts in Imports*, L.A. Times, Jan. 16, 1988, § IV, at 1, col. 1. *But see* Rausch, *Deficits: Economists Hot, Candidates Cool*, L.A. Times, June 12, 1988, § V, at 3, col. 1. Other economists believe that export increases alone will not solve the trade deficit, but that changes must be made to domestic governmental spending to reduce the budget deficit as well. *Id.*

5. Tyson, *supra* note 1, at 2, col. 4.

6. FOREIGN TRADE BARRIERS, U.S. TRADE REPRESENTATIVE *passim* (1989). Intellectual property includes patents, copyrights and trademarks. *Id.* at 2.

7. *Unfair Foreign Trade Practices: Hearings Before the Energy and Commerce Committee*, 99th Cong., 2d Sess. 36 (1986) [hereinafter *Hearings*].

duplication would constitute an infringement of patents or copyrights if performed in the United States.⁸ By pirating intellectual property, these nations effectively avoid royalty and development costs. Coupled with their own typically cheap labor, pirate nations can provide low cost products for their citizens.

Unfortunately, these practices cause three types of trade problems for U.S. business.⁹ First, merchandise produced in the United States is rendered uncompetitive in these markets.¹⁰ In 1986, government estimates indicated that piracy of intellectual property cost U.S. industry \$20 billion in annual sales and affected roughly 750,000 jobs.¹¹ Second, where other countries import unauthorized products from pirating nations, U.S. exports to these other markets are adversely impacted.¹² Lastly, U.S. companies lose sales in the United States to illegally imported counterfeit products.¹³ If pirate nations were encouraged to adopt stricter intellectual property protection, as exists in the United States and other developed nations, U.S. products could potentially be more competitive worldwide and the value of U.S. exports would increase.

Guarding against this piracy is exceedingly difficult since the U.S. intellectual property laws have no extraterritorial effect.¹⁴ As such, patent, trademark or copyright piracy is not an infringement unless it occurs within the United States.¹⁵ Consequently, foreign piracy of U.S. intellectual property does not violate U.S. law. Therefore, to combat the undesirable practice, the United States relies on multilateral and bilateral treaties to establish intellectual property standards, and on the use of the U.S. trade laws for treaty enforcement.¹⁶

The United States is currently a party to several multilateral

8. See *infra* note 14 and accompanying text.

9. *Hearings, supra* note 7, at 69 (statement of H. Bale, Assistant U.S. Trade Representative).

10. *Id.*

11. *Id.* at 87 (statement of A. Hughes, Deputy Secretary to the Secretary of Commerce).

12. *Id.* at 69.

13. *Id.*

14. 35 U.S.C. § 271 (1983); 17 U.S.C. § 501 (1977). Section 271(a) provides that "[w]hoever without authority makes, uses or sells any patented invention, *within the United States* during the term of the patent therefor, infringes the patent." 35 U.S.C. § 271(a) (1983) (emphasis added). Section 501(a) provides that one "who imports copies or phonorecords *into the United States* . . . is an infringer of the copyright." 17 U.S.C. § 501(a) (1977) (emphasis added).

15. 35 U.S.C. § 271 (1983); 17 U.S.C. § 501 (1977).

16. *Hearings, supra* note 7, at 91-92.

trade initiatives. For the last forty years, the General Agreement on Tariffs and Trade ("GATT") has been the cornerstone of U.S. trade policy.¹⁷ The GATT is a multilateral agreement between ninety-three nations committed to reducing barriers to trade.¹⁸ Simultaneously, the United States has been a member of another multilateral group, the World Intellectual Property Organization ("WIPO"), which has sought to develop universal standards for the protection of intellectual property.¹⁹ The United States has also entered into and continues to pursue bilateral trade agreements through direct negotiations with trading partners to reduce intellectual property barriers to trade.²⁰ However, most attempts to reach acceptable multilateral or bilateral agreements to specifically protect intellectual property thus far have proven fruitless.

Congress insisted on a more combative or unilateral approach to solving trade problems, stressing economic sanctions and retaliation,²¹ and in 1988 enacted the Omnibus Trade and Competitiveness Act ("Trade Act of 1988").²² A major purpose of the Act was to provide negotiating objectives to U.S. trade negotiators with respect to unfair foreign trade practices.²³ One provision of the Trade Act of 1988,

17. Interview with Ambassador Ernest Preeg, Senior Fellow, Center for Strategic and International Studies (June 9, 1989) (available on Fed. News Serv.) [hereinafter Interview].

18. CONGRESSIONAL BUDGET OFFICE, THE GATT NEGOTIATIONS AND U.S. TRADE POLICY ix-xi (June 1987). GATT was formed in 1948 as a first step toward the creation of an international trading order by the proposed International Trading Organization ("ITO"). It was widely believed that economic protectionism had been a prime cause of World War II, and ITO was intended to be a forum for conducting multilateral tariff negotiations. Although the ITO charter was never approved, GATT endured as a multilateral agreement. In the 1950s, an executive body, also known as GATT, was formed to administer the multilateral agreement. J. LEW & C. STANBROOK, INTERNATIONAL TRADE: LAW AND PRACTICE 183 (1983).

19. PATENTS THROUGHOUT THE WORLD B-47 (A. Jacobs 4th ed. 1989) [hereinafter PATENTS]; Paris Convention for the Protection of Industrial Property, *opened for signature* Mar. 20, 1883, *as amended*, 21 U.S.T. 1583, T.I.A.S. No. 6923, 828 U.N.T.S. 305 [hereinafter Paris Convention]. Industrial property includes patents and trademarks. *Id.* art. 1. WIPO is a United Nations specialized agency empowered to administer a number of industrial property agreements. Most notable among the administered agreements is the Paris Convention for the Protection of Industrial Property, which is the major treaty regulating international industrial property. The Paris Convention was originally concluded in 1883, and has been revised six times since. SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES, AND THE ADMINISTRATION OF JUSTICE, REVISION OF THE PARIS CONVENTION ON INDUSTRIAL PROPERTY COMMITTEE, H.R. DOC. NO. 23, 97th Cong., 2d Sess. 4-6 (1982).

20. *Hearings, supra* note 7, at 77-78. *See, e.g., Efforts to Negotiate Bilateral Agreements to Curb Piracy Continuing, PTO Official Says*, Int'l Trade Rep. (BNA) 1433 (Oct. 26, 1988).

21. *Protecting the Baubles*, L.A. Times, Feb. 14, 1988, § V, at 4, col. 1.

22. Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107 (codified as amended in scattered sections of 19 U.S.C.).

23. *Id.* § 1101, 102 Stat. 1121-24.

known as "Special 301," specifically addresses the problem of intellectual property protection.²⁴ Essentially, Special 301 grants the President broad power to retaliate unilaterally against foreign nations by imposing economic sanctions on countries that inadequately protect intellectual property rights.²⁵ Presumably, Congress expected the threat of retaliation to encourage foreign countries to enact intellectual property laws similar to those of the United States. It is the author's position that Special 301 has not granted the President any additional authority over that which he previously has been granted. Nonetheless, Special 301 has been a success in that it has given other countries the impression that the United States has strengthened its resolve regarding intellectual property piracy. As a result, these countries have reacted in the manner desired by Congress.

This Comment will focus on the Special 301 provision of the Trade Act of 1988. First, this Comment will detail the variety of intellectual property protection problems encountered throughout the world. It will then describe the mechanics and unilateral nature of Special 301 and contrast it with pre-existing multilateral and bilateral trade initiatives. Then, the Comment will relate ongoing efforts to enhance multilateral agreements and explore Special 301's role in this process. Lastly, this Comment will suggest other non-retaliatory unilateral steps which the United States could take to further its long term objectives of obtaining universal intellectual property protection and reducing the trade deficit.

II. PROBLEMS ENCOUNTERED BY FOREIGN PIRACY OF U.S. INTELLECTUAL PROPERTY

U.S. business leaders have labeled a variety of foreign customs resulting in the piracy of intellectual property as unfair trade practices. This foreign piracy costs U.S. business billions of dollars in lost sales abroad.²⁶ The most criticized of the unfair trade practices are non-existent patent protection; inadequate enforcement of laws; movie, video and recording piracy; mandatory licensing; and non-recognition of new technologies.²⁷ Developing nations defend their actions by maintaining that patent systems would hinder their

24. *Id.* § 1303, 102 Stat. 1179-81 (codified as amended at 19 U.S.C.A. § 2242 (West Supp. 1989)).

25. See 19 U.S.C.A. § 2411(a) (West Supp. 1989).

26. *Hearings, supra* note 7, at 87.

27. COUNTRY REPORTS ON ECONOMIC POLICY AND TRADE PRACTICES, U.S. STATE DEPARTMENT *passim* (1989) [hereinafter COUNTRY REPORTS].

development and that they should be free to structure their laws differently from those of developed countries.²⁸ Each of the criticized unfair trade practices will be described below.

In a few countries, certain types of products are completely exempt from national patent protection; for instance, Brazil does not allow either product or process patent protection for metal alloys, chemical compounds, food, pharmaceutical substances, or biotechnological inventions.²⁹ These countries justify the exemption by stressing the critical need of these products to prevent starvation and disease.³⁰ Indira Gandhi of India summed up her nation's opposition to pharmaceutical patents by stating that "[t]he idea of a better-ordered world is one in which medical discoveries will be free of patents and there will be no profiteering from life and death."³¹ Accordingly, domestic producers of pirated commodities in these countries may infringe U.S. patents with impunity.

Pirated products are primarily copied and sold for domestic use within the pirating country. However, in some cases, counterfeit products are exported into the markets of other countries.³² Consequently, U.S. exporters are not only locked out of the pirating nation's market, but transshipment also causes a U.S. marketing barrier in these other countries. Of additional concern is the potential transshipment of these pirated products back into U.S. markets.³³ In one example, pirated pharmaceuticals were discovered repackaged under forged labels for distribution and sale in the United States.³⁴ The quality of the copied products is often found to be significantly inferior to those made by the official manufacturer, due to the pirates' poor quality-control methods.³⁵ For example, deficiencies have been found in the potency of pharmaceuticals, precision of automotive parts and

28. *Indian Proposal Says Developing Countries Should Get Patent, Trademark Concessions*, Int'l Trade Rep. (BNA) 953-54 (July 19, 1989).

29. COUNTRY REPORTS, *supra* note 27, at 643.

30. Gadbow & Kenny, *India*, in INTELLECTUAL PROPERTY RIGHTS: GLOBAL CONSENSUS, GLOBAL CONFLICT? 186 (R. Gadbow & T. Richards ed. 1988).

31. *Id.*

32. *Hearings*, *supra* note 7, at 13.

33. *Id.* The protection against the importation of products which infringe United States patents is also provided for in the Trade Act of 1988, but is not addressed in this comment. See 19 U.S.C.A. § 1337 (West Supp. 1989).

34. *Hearings*, *supra* note 7, at 14. For instance, pirated Ceclor, an Eli Lilly antibiotic product, has been found in Singapore in counterfeit capsules with fake lot numbers, labels and packaging, ready for shipment to the United States. *Id.*

35. *Id.*

formula for food and liquor products.³⁶ Even if such potentially dangerous products are kept from U.S. customers, this practice places unwary consumers in other unsuspecting countries at substantial risk.

Some nations that do have intellectual property laws inadequately or unfairly enforce them. In these countries, infringers openly operate without harassment from the law.³⁷ The penalties for infringement are often so slight that it is not worth the cost of litigation to bring a claim.³⁸ In some cases, only products patented after the enactment of patent laws are eligible for protection. In other cases, domestic industries are simply permitted by law to infringe even though there are valid patents under national law.³⁹

Other countries' practices have a discriminatory effect on foreign trade partners. For example, lengthy delays in processing patents and trademarks in Japan deter U.S. businesses from exporting products there.⁴⁰ In one extreme case, Texas Instruments, Inc., a U.S. firm, obtained a patent in Japan for an integrated circuit invention based on an application filed thirty years ago.⁴¹

Another serious problem is that of movie, video and sound recording copyright piracy. This has become widespread because such works are easily duplicated.⁴² For example, in 1987, the United States motion picture industry estimated that 80 percent of the Japanese videocassette market was pirated; this translated into an annual

36. See *id.* at 41, 46 (counterfeit auto parts responsible for traffic accidents and counterfeit wine causing deaths).

37. *Id.* at 89.

38. *Id.*

39. *Id.* at 17. For example, Monsanto Corporation has valid product and process patents in Taiwan and the United States for its herbicide Roundup. However, a Taiwanese company has been officially permitted to infringe the patent since 1980. The American Institute in Taiwan estimates Monsanto's 1985 losses in third markets to be as much as \$1.6 billion. *Id.*

40. OPERATION OF THE TRADE AGREEMENTS PROGRAM, 40TH REPORT, USITC PUB. NO. 2208, at 111 (1988). In Japan, a foreign patent application can take up to six years to process. *Id.* To protect their rights, U.S. firms are often forced to license their patents to Japanese companies, rather than exporting products. COUNTRY REPORTS, *supra* note 27, at 223.

41. *Japan Grants Patent for Texas Instruments Integrated Circuits After 30-Year-Long Wait*, Int'l Trade Rep. (BNA) 1564 (Nov. 29, 1989). An industry representative commented that if the patent had issued several years ago when U.S. firms dominated the industry, it would have been a problem for the Japanese, but since the Japanese have surpassed the United States in competitiveness in this area, the patent will now have little effect. *Id.* at 1565.

42. Gadbaw & Richards, *Introduction*, in INTELLECTUAL PROPERTY RIGHTS: GLOBAL CONSENSUS, GLOBAL CONFLICT? 4 (R. Gadbaw & T. Richards ed. 1988).

\$220 million loss to the industry.⁴³ Since the supply of legitimate products cannot satisfy the world demand, copyright pirate entrepreneurs endeavor to fill the void. As one nation tightens its copyright laws, these pirates move to other countries with more relaxed laws.⁴⁴ In 1988, the most notorious offending nations were China and Saudi Arabia, which were responsible for \$418 million and \$189 million in estimated sales losses, respectively.⁴⁵

Many countries that have patent laws require foreign patent holders to put the patented invention to use.⁴⁶ If the patent holder does not use the patent, these countries issue compulsory licenses to local manufacturers to produce the patented invention without the use constituting an infringement.⁴⁷ The United States has no compulsory license requirement⁴⁸ and finds the practice particularly troublesome.⁴⁹ Its position is that an inventor should not be required to put the invention into use and should be able to prevent others from doing so.⁵⁰ Developing countries counter that commercial use of a patent is a fundamental obligation of the patent owner and that compulsory licenses prevent patent owners from misusing their rights.⁵¹

A final area of concern involves newly emerging technologies. Recent advancements in biotechnology and space satellite technology are not patentable in most foreign countries.⁵² For example, satellite signal piracy has emerged as an increasing problem in Taiwan. Encoded television broadcasts are intercepted, decoded and retransmitted to domestic viewers, despite U.S. copyright protection over the

43. COUNTRY REPORTS, *supra* note 27, at 223. However, Japan has responded by enacting new legislation which facilitates prosecution of suspected video pirates. *Id.*

44. *Hearings, supra* note 7, at 38 (testimony of A. Gurka, Managing Director of the CTS Group, Hong Kong). For example, efforts to curb copyright protection in South Korea and Singapore will likely result in the counterfeiting operations moving to the Middle East, most likely to the Gulf state of Abu Dhabi. *Efforts To Negotiate Bilateral Agreements To Curb Piracy Continuing, PTO Official Says*, Int'l Trade Rep. (BNA) 1433-34 (Oct. 26, 1988).

45. *Two Worst Copyright Pirates Are China And Saudi Arabia, Report Says*, Int'l Trade Rep. (BNA) 673 (Apr. 27, 1989).

46. PATENTS, *supra* note 19, at 487-88.

47. Comment, *Compulsory Patent Licensing in the United States: An Idea Whose Time Has Come*, 8 NW. J. INT'L L. & BUS. 666, 671 (1988).

48. PATENTS, *supra* note 19, at U-50.

49. *Hearings, supra* note 7, at 82.

50. See generally Comment, *supra* note 47. Under a contract theory of patents, a compulsory license is a failure of consideration on the part of the government; under a property law theory of patents, a compulsory license is a taking. *Id.* at 681.

51. *Indian Proposal Says Developing Countries Should Get Patent, Trademark Concessions*, Int'l Trade Rep. (BNA) 953-54 (July 19, 1989).

52. See COUNTRY REPORTS, *supra* note 27, at 301.

broadcasts.⁵³ The growing problem of computer software piracy is becoming widespread and few nations are effectively dealing with it.⁵⁴ The United States' competitive advantage has historically been in the development of new technologies,⁵⁵ such as computers and biotechnology. Therefore, this problem area could potentially cause the greatest harm to the U.S. economy if left unsolved.⁵⁶ The United States is not alone in the development of new technologies; other nations, such as Japan and West Germany, share this concern.⁵⁷

III. COMBATTING UNFAIR TRADE: CONGRESS' UNILATERAL TRADE SOLUTION

The United States' strategy for solving each of the described unfair trade practices has been to pursue bilateral and multilateral trade agreements with its trade partners. However, acceptable agreements have not been forthcoming. Responding to pressure from industrial interest groups, Congress introduced a unilateral mechanism for combatting the unfair practices and strengthening international intellectual property protection. The mechanism it selected, Special 301, is an enhanced version of a system for combatting unfair foreign trade practices, originally created as part of the Trade Act of 1974.⁵⁸

A. Precursors to Special 301: The Trade Acts of 1974 and 1984

The Trade Act of 1974 granted general authority to the President to take action in response to certain unfair foreign trade practices.⁵⁹ The offensive trade practices targeted did not specifically involve in-

53. *Id.* Taiwan is able to commit this unique form of intellectual property piracy since it is a major producer of television broadcast equipment. *Id.*

54. See *Hearings*, *supra* note 7, at 82; Gadbow & Richards, *supra* note 42, at 13. Singapore, Taiwan, India and Mexico have recognized the availability of copyright protection for computer software. Gadbow & Gwynn, *Intellectual Property Rights in the New GATT Round*, in *INTELLECTUAL PROPERTY RIGHTS: GLOBAL CONSENSUS, GLOBAL CONFLICT?* 56 (R. Gadbow & T. Richards ed. 1988).

55. Tyson, *Managing Our High-Tech Trade*, L.A. Times, Sept. 17, 1989, § IV, at 2, col. 4. High technology products account for a significant share of U.S. trade: about 38% of non-agricultural merchandise exports and 25% of non-petroleum merchandise imports. *Id.*

56. *Id.*

57. See, e.g., *U.S. Marching to Its Own Tune: Chips and Beyond*, 8 P.T.C. NEWSLETTER 15 (1990). Both the United States and Japan opposed adoption of a treaty for protection of semiconductor chip designs, since it was riddled with loopholes and had no dispute settlement provision. *Id.*

58. Trade Act of 1974, Pub. L. No. 93-618, 1974 U.S. CODE CONG. & ADMIN. NEWS 2290 (codified as amended at 19 U.S.C. §§ 2101-2487).

59. *Id.* at 2364.

lectual property but were confined to actions of foreign governments that were discriminatory, unjustifiable or unreasonable and which burdened or restricted U.S. commerce.⁶⁰ Under section 301 of the 1974 law, the President could take unilateral action against these countries by restricting or withholding anticipated benefits stemming from existing trade agreements, or imposing duties or import restrictions on the products of these countries.⁶¹

The amendment of the Trade Act of 1974 by the Trade and Tariff Act of 1984 considerably strengthened section 301.⁶² The 1984 Act broadened the President's authority to retaliate against unfair foreign trade practices. Specifically, the 1984 Act mandated new negotiating objectives and established procedures and timetables for initiating an investigation by the United States Trade Representative ("USTR") into offensive trade practices.⁶³ Congress finally acknowledged the growing problem of inadequate intellectual property protection by defining an "unreasonable" policy as one which does not necessarily violate "international legal rights of the United States," but "denies fair and equitable . . . protection of intellectual property rights."⁶⁴

Having granted the President increased authority, Congress became impatient with his apparent unwillingness to exercise it. By 1988, the United States had not retaliated against any country for intellectual property abuses. Amid protectionist fervor to combat unfair trade practices, Congress once again sought to strengthen the trade laws, this time by identifying a more stringent directive to mandate retaliation against such abuses.⁶⁵

However, the Reagan administration opposed additional changes to the trade law, arguing that current law already gave the President adequate negotiating authority over intellectual property protection.⁶⁶

60. *Id.*

61. *Id.* at 2365.

62. Trade and Tariff Act of 1984, Pub. L. No. 98-573, §§ 301-304, 98 Stat. 2948, 3000 (codified as amended at 19 U.S.C. §§ 2111-2487).

63. *Id.* § 304, 98 Stat. 3004-05. Executive order created the office of the United States Trade Representative (USTR) and designated it to be the President's agent in all trade negotiations. Exec. Order No. 12,188, 45 Fed. Reg. 993 (1980).

64. Trade and Tariff Act of 1984, Pub. L. No. 98-573, §§ 301-304, 98 Stat. 2948, 3004-05 (codified as amended at 19 U.S.C. §§ 2111-2487).

65. *A Strong Flavor of Protectionism*, L.A. Times, Mar. 29, 1987, § V, at 4, col. 1.

66. *Intellectual Property and Trade: Oversight Hearings Before the Judiciary Committee*, 100th Cong., 1st Sess. 55-56 (1987) (testimony of A. Zalik, former Assistant General Counsel to the USTR) [hereinafter *Oversight Hearings*]. Other critics of the proposed law attacked Congress for putting limits on presidential discretion with mandatory sanctions, calling such

Further, the administration asserted that the additional reports and mandatory negotiations required by the proposed law would put additional strain on the USTR's already thin staff and interfere with ongoing trade negotiations.⁶⁷ Nonetheless, during the final stages of the 1988 presidential campaign, Congress enacted the Trade Act of 1988 which included mandatory retaliation.⁶⁸

B. Special 301 of the Trade Act of 1988

The Trade Act of 1988 notably strengthened section 301.⁶⁹ The Special 301 provision of the Trade Act requires mandatory responsive action to resolve the specific problem of intellectual property protection.⁷⁰ Once the USTR determines that a foreign practice either violates a trade agreement or unjustifiably burdens United States commerce, the President must take mandatory responsive action.⁷¹ Special 301 is a more focused version of a broader law, popularly known as "Super 301," which mandates similar responsive action against a wide variety of other unfair trade practices.⁷²

The stated objective of Special 301 is to "seek enactment and effective enforcement by foreign countries of laws which recognize and adequately protect intellectual property."⁷³ This legislative purpose stems from Congress' finding that:

(A) international protection of intellectual property rights is vital

limits counterproductive to attaining free trade. *Crucial Trade Tests*, L.A. Times, Mar. 11, 1988, § II, at 6, col. 1.

67. *Oversight Hearings*, *supra* note 66, at 56.

68. Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 1301, 102 Stat. 1107, 1164. President Reagan vetoed the original version of the law on May 24, 1988 because it included a provision requiring employers to notify employees of plant closings and layoffs. H.R. CONF. REP. NO. 100-576, 100th Cong., 2d Sess. 1, *reprinted in* 1988 U.S. CODE CONG. & ADMIN. NEWS 1547. The disputed provision is not in the enacted version of the law. *Id.*

69. Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 1301, 102 Stat. 1107, 1164.

70. *Id.* § 1303, 102 Stat. 1179.

71. 19 U.S.C.A. § 2411(a)(1) (West Supp. 1989).

72. 19 U.S.C.A. § 2411 (West Supp. 1989). Besides intellectual property abuses, the Trade Act of 1988 also seeks to eliminate foreign practices which deny either the opportunity to establish an enterprise or market access through anti-competitive behavior, or which constitute export targeting or unfair labor practices. *Id.* § 2411(d). For additional information on Super 301, see Comment, *Section 301 of the Trade and Competitiveness Act of 1988: Its History and Implications in the U.S.-South Korea Trade*, 1989 B.Y.U. L. REV. 549 (1989).

73. H.R. CONF. REP. NO. 576, 100th Cong., 2d Sess. 522, *reprinted in* 1988 U.S. CODE CONG. & ADMIN. NEWS 1547, 1555.

to the international competitiveness of United States persons that rely on protection of intellectual property rights; and
(B) the absence of adequate and effective protection of United States intellectual property rights, and the denial of fair and equitable market access, seriously impede the ability of the United States persons that rely on protection of intellectual property rights to export and operate overseas, thereby harming the economic interest of the United States.⁷⁴

Under the Special 301 mechanism, the USTR must first identify "priority" countries.⁷⁵ These are the countries that "have the most onerous or egregious acts, policies, or practices that (i) deny adequate and effective intellectual property rights, or (ii) deny fair and equitable market access to United States persons that rely upon intellectual property protection."⁷⁶ The identification of priority countries can stem from a petition for investigation filed by "any interested person,"⁷⁷ or from information provided by other sources within the federal government, such as the Register of Copyrights and the Commissioner of Patents and Trademarks.⁷⁸ This priority identification must be completed by April thirtieth of each year,⁷⁹ and a list of these priority countries must be published in the Federal Register.⁸⁰ The USTR must then initiate an investigation into the allegations of unfair trade practices of these priority countries⁸¹ and can attempt to negotiate a bilateral agreement which settles the dispute.⁸² If the investigation reveals that U.S. rights are being denied and the USTR is unsatisfied with the priority country's progress toward a bilateral agreement within eighteen months of the initiation of the investigation, the President must take responsive action.⁸³

The President has a broad range of potential responsive actions available.⁸⁴ Specifically, the Act authorizes the President to impose

74. Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, § 1303(a), 102 Stat. 1107, 1179.

75. 19 U.S.C.A. § 2242(a) (West Supp. 1989).

76. *Id.* § 2242(b)(1)(A).

77. *Id.* § 2412.

78. *Id.* § 2242(b)(2).

79. *Id.* §§ 2241-2242. Section 2242(a) requires the priority identification to be complete thirty days after publishing the National Trade Estimate report, which is due on March thirty-first of each succeeding year, per section 2241(b). *Id.* § 2242(a).

80. *Id.* § 2242(e).

81. *Id.* § 2412(b)(2)(A).

82. *Id.* § 2411(c)(1)(C).

83. *Id.* §§ 2411(a), 2414(a).

84. *Id.* § 2411(c).

duties or other import restrictions on the goods of the priority country.⁸⁵ The President may also suspend, withdraw, or prevent the application of benefits of trade agreements with the priority country.⁸⁶ However, the Act emphasizes that the imposition of duties be given preference over other types of import restriction.⁸⁷ Additionally, the goods selected for duties or restrictions need not be related to the disputed practice of the priority country.⁸⁸

Despite the tough language of the law, there are important loopholes which permit the President to avoid taking the mandatory responsive action.⁸⁹ The law allows the dispute resolution process of GATT to handle the investigation of the unfair trade practice alleged by the USTR.⁹⁰ If a GATT dispute resolution panel finds that United States rights are not being denied, or that the foreign practice does not deny the United States benefits pursuant to any trade agreement, the President is not required to take responsive action.⁹¹ A second loophole centers on the meaning of "satisfactory progress." The USTR need only find that the foreign country under investigation is making satisfactory progress toward the protection of intellectual property rights to toll the mandatory responsive action; a bilateral trade agreement does not have to be finalized.⁹² The USTR can also waive mandatory responsive action if the country agrees to stop the disputed practice,⁹³ or if the proposed responsive action would have an adverse impact on the U.S. economy⁹⁴ or cause serious harm to national security.⁹⁵

C. *Applying Special 301 to the Unfair Trade Problems*

Since the enactment of Special 301, the United States has taken responsive action against two nations for intellectual property piracy.⁹⁶ In reaction to a USTR investigation of Brazil, initiated at

85. *Id.* § 2411(c)(1)(B).

86. *Id.* § 2411(c)(1)(A).

87. *Id.* § 2411(c)(5)(A).

88. *Id.* § 2411(c)(3).

89. *Id.* § 2411(a)(2).

90. *Id.* § 2411(a)(2)(A). See *infra* section IV(A) of this Comment for a discussion of the GATT dispute resolution process.

91. *Id.*

92. *Id.* § 2411(a)(2)(B).

93. *Id.* § 2411(a)(2)(B)(ii).

94. *Id.* § 2411(a)(2)(B)(iv).

95. *Id.* § 2411(a)(2)(B)(v).

96. Actions taken against Brazil and Thailand stem from investigations initiated prior to

the request of the Pharmaceutical Manufacturer's Association, President Reagan imposed a \$39 million sanction by placing additional tariffs on a list of specified Brazilian goods.⁹⁷ This sanction was equal to the USTR's estimate of lost sales by United States pharmaceutical manufacturers due to patent piracy in Brazil.⁹⁸ In discussing the action, former USTR Clayton Yeutter commented that "[r]etaliatio[n] should be an action of last resort on any trade dispute; that has been the case here . . . [but] patent piracy simply cannot go unchallenged."⁹⁹

Similarly, the United States retaliated against Thailand by modifying that country's duty-free status for its failure to adequately protect intellectual property.¹⁰⁰ Duty-free treatment is a benefit that the United States affords to several developing nations under a program known as the Generalized System of Preferences ("GSP").¹⁰¹ GSP treatment allows these developing nations to export goods to the United States without many of the duties normally imposed on developed nations.¹⁰² However, President Reagan revoked the special treatment after USTR efforts to resolve Thailand's failure to protect intellectual property rights broke down.¹⁰³

In 1989, the USTR did not identify any nations as priority nations for investigation and possible responsive action under Special 301. Instead, President Bush administratively created an intermediate step not required by Special 301 by establishing a "watch list" of twenty-five countries.¹⁰⁴ This watch list identifies two categories of countries with unfair intellectual property trade practices.¹⁰⁵ The first

the enactment of Special 301 under the authority of existing law. However, they are described in this section since they typify the investigation and responsive action of Special 301.

97. OPERATION OF THE TRADE AGREEMENTS PROGRAM, 40TH REPORT, USITC PUB. NO. 2208, at 134-35 (1988); Gerstenzang & Pine, *U.S. Moves to Curb Imports From Brazil*, L.A. Times, July 23, 1988, § 1, at 1, col. 3.

98. *Reagan, Charging Patent Piracy, Imposes Sanctions on \$39 Million of Brazilian Goods*, Int'l Trade Rep. (BNA) 1415 (Oct. 26, 1988).

99. *Id.*

100. Memorandum for the United States Trade Representative, 54 Fed. Reg. 3,573 (1989); *President Reagan Denies Thailand Larger GSP Benefits, Citing Intellectual Property Record*, Int'l Trade Rep. (BNA) 96 (Jan. 25, 1989).

101. 19 U.S.C.A. § 2461 (West Supp. 1989).

102. *Id.*

103. *President Reagan Denies Thailand Larger GSP Benefits, Citing Intellectual Property Record*, Int'l Trade Rep. (BNA) 96 (Jan. 25, 1989).

104. *USTR Defends Administration's Naming of Japan, India, Brazil Under Super 301*, Int'l Trade Rep. (BNA) 684 (May 31, 1989).

105. *"Special 301" on Intellectual Property*, Int'l Trade Rep. (BNA) 718-19 (May 31, 1989).

category, or "priority" watch list countries, are those that could meet the statutory criteria for priority country identification but are making some progress in recent bilateral or multilateral negotiations.¹⁰⁶ The President gave these priority watch list countries six months to show positive progress before naming them as priority countries, thus triggering the Special 301 mechanism.¹⁰⁷ The second category of watch list countries are those that have a lesser degree of inadequate intellectual property protection and were given one year to prove progress.¹⁰⁸ Under both categories, the mandatory investigation mechanism and responsive action timetable of Special 301 was not triggered because the countries were put on a watch list rather than the Special 301 priority list. It seems that the Bush administration's intermediate approach intended to prod these countries into action, without actually retaliating against them. This tactic met with a mixed reaction from Congress; some legislators applauded the President's restraint, while others criticized the action as being weak.¹⁰⁹

D. Criticism of Special 301

Even though the new law was intended to be tougher on unfair trade than pre-existing law, Special 301 fails to give the President any new authority other than that previously available. For example, Congress gave the President authority to take responsive action against unfair trade practices in the 1984 Trade Act.¹¹⁰ This authority was essentially recodified in Special 301.¹¹¹ Furthermore, the loopholes in Special 301 give the President considerable discretion to avoid responsive action, if for political or economic reasons he so

106. *See id.* The eight countries placed on the priority watch list are Brazil, India, Mexico, People's Republic of China, Republic of Korea, Saudi Arabia, Taiwan, and Thailand. *Id.* at 719.

107. *Id.* at 718-19.

108. *Id.* at 719. Countries on the watch list include Argentina, Canada, Chile, Colombia, Egypt, Greece, Indonesia, Italy, Japan, Malaysia, Pakistan, Philippines, Portugal, Spain, Turkey, Venezuela, and Yugoslavia. *Id.*

109. *USTR Defends Administration's Naming of Japan, India, Brazil Under Super 301*, Int'l Trade Rep. (BNA) 684 (May 31, 1989). Senator Dole praised the administration's action, calling it "the right call." *Id.* Rep. Gephardt criticized the Bush administration for not taking stronger action and for not making "these intellectual property pirates walk the plank." 135 CONG. REC. E1552-53 (daily ed. May 4, 1989).

110. 19 U.S.C. § 2411(a) (1985). Section 2411(a) provided that after the President determines that action is appropriate in response to barriers to market access "the President shall take all appropriate and feasible action within his power to enforce such rights or to obtain the elimination of such act, policy, or practice." *Id.* § 2411(a)(B)(ii).

111. 19 U.S.C.A. §§ 2242, 2411 (West Supp. 1989).

chooses.¹¹² This effectively thwarts Congress' intent to mandate responsive action. For these reasons, it appears that the Reagan administration's criticism of the new law was valid and that Special 301 is substantively unnecessary.

Despite this criticism, Special 301 has already shown some signs of success. Shortly after its enactment, the United States and Indonesia signed a bilateral agreement to protect copyrights on a variety of creative works.¹¹³ Indonesia had long been considered a haven for copyright piracy.¹¹⁴ Additionally, Indonesia enacted its first patent law in November 1989, after over thirty years of discussion.¹¹⁵

China, also one of the worst copyright offenders, signed a memorandum of agreement during bilateral talks with the United States agreeing to enact a copyright law to protect computer software.¹¹⁶ This action occurred simultaneously with the President's placing of China on the Special 301 priority watch list.¹¹⁷ China also agreed to finish an amendment to its patent law and to join in international forums for the protection of intellectual property rights.¹¹⁸

Most likely, the threat of retaliation prompted both Indonesia and China to finally acknowledge U.S. demands to protect its intellectual property. In other words, even though Special 301 gives the President no additional power, the tougher language has created the illusion that an enhanced weapon against unfair trade exists, and this has scared pirating nations into action.

IV. CONTRASTING SPECIAL 301 WITH MULTILATERAL AND BILATERAL COMMITMENTS

Despite the initial success of Special 301, many foreign governments condemn the United States for using unilateral retaliatory

112. 19 U.S.C.A. § 2411(a)(2) (West Supp. 1989). See, e.g., *U.S. Message to Brazil Seen Linking 301 to Sale of U.S. Telecommunications Equipment*, Int'l Trade Rep. (BNA) 1085 (Aug. 23, 1989). President Bush hinted at resolving the trade dispute with Brazil in return for expanded access into the Brazilian telecommunications market. *Id.* at 1085-86.

113. *U.S., Indonesia Sign Bilateral Agreement to Protect Copyrights, Effective Aug. 1*, Int'l Trade Rep. (BNA) 464 (Apr. 12, 1989). The agreement will protect copyrights on books, sound recordings, films, computer software, and other works. *Id.*

114. *Id.*

115. Gingerich, *Indonesia: New Patent Law*, IP Asia, Nov. 22, 1989, at 18.

116. *China Agrees To Push for Copyright Protection of Computer Software*, Int'l Trade Rep. (BNA) 818 (June 21, 1989).

117. *Id.* The bilateral agreement was signed on May 19, 1989. *Id.*

118. *Id.* The draft amendment is intended to extend the term and expand the scope of patent protection. *Id.*

measures, because they contradict the objectives of existing multilateral commitments. The supporters of Special 301 counter that the unilateral action complements and enhances multilateral and bilateral agreements and improves the prospects for future compromises.

Not surprisingly, the loudest condemnation of Special 301 has come from the watch list countries. These countries argue that the law is a protectionist measure which does little to further the international objective of eliminating barriers to trade, as promoted by GATT. Moreover, the Special 301 responsive action is in fact a new barrier to trade.¹¹⁹ Secondly, developing nations argue that intellectual property rights are not required under international agreements, such as the Paris Convention,¹²⁰ and that their "violation" is therefore not an unfair trade practice. In the following sections, Special 301 will be analyzed in light of the United States' commitments to these two multilateral agreements, namely GATT and the WIPO Paris Convention. The United States' efforts to negotiate bilateral trade agreements will also be briefly examined.¹²¹

A. *The General Agreement on Tariffs and Trade*

The United States was one of the principle GATT architects, signing as a contracting party on October 30, 1947.¹²² GATT basically sets out a conciliatory process for negotiating substantive trade agreements with the purpose of reducing tariffs, preferences and other trade barriers, on a "reciprocal and mutually advantageous basis."¹²³ The GATT Agreement on Technical Barriers to Trade provides specific rules for adopting trade regulations.¹²⁴ To date, GATT has successfully reduced tariffs on imported products and has made significant progress on reducing other non-tariff barriers to trade.¹²⁵ Yet, GATT has accomplished little in the area of intellectual property protection.

The primary criticism of Special 301 is that it conflicts with

119. See *infra* notes 122-139 and accompanying text.

120. See *infra* notes 140-151 and accompanying text.

121. See *infra* notes 152-155 and accompanying text.

122. General Agreement on Tariffs and Trade, Oct. 30, 1947, T.I.A.S. No. 1700, reprinted in 4 BEVANS, TREATIES AND OTHER INTERNATIONAL AGREEMENTS OF THE UNITED STATES OF AMERICA, 1776-1949, 639 (1970).

123. *Id.* at 640.

124. General Agreement on Tariffs and Trade Multilateral Negotiations: Agreement on Technical Barriers to Trade, March 29, 1979, art. 2, 18 I.L.M. 1079, 1081-1111.

125. CONGRESSIONAL BUDGET OFFICE, *supra* note 18, at 61.

many of GATT's requirements.¹²⁶ A principle area of conflict with Special 301 concerns GATT's non-discrimination provision. GATT provides that imported products receive identical treatment as domestically produced products with regard to tariffs and regulations.¹²⁷ Accordingly, country A could not levy discriminatory tariffs or restrictions on products imported from country B, unless country A levies a similar tariff or restriction on its own products.

However, intellectual property is not a "product" covered by GATT.¹²⁸ Therefore, inadequate protection of intellectual property could not be considered discriminatory treatment, and the pirating nations are not in violation of GATT. Nevertheless, the typical responsive action provided by Special 301, the levying of retaliatory tariffs on an offending nation's exported products, is a violation of GATT's objective. This is because Special 301 puts a retaliatory tariff on GATT-protected goods in response to a non-GATT violation. Therefore, unless the scope of GATT is expanded to protect intellectual property, the responsive action envisioned under Special 301 violates GATT's non-discrimination objective.

A second conflict between GATT and Special 301 concerns the friction created within the GATT dispute resolution process. GATT provides for bilateral consultation of trade problems between the trading partners involved, with an emphasis on directly negotiating a settlement.¹²⁹ When this process fails, an independent panel of experts

126. *U.S. Comes Under Attack over Trade Policy at GATT Council Meeting, Defends Super 301*, Int'l Trade Rep. (BNA) 830 (June 28, 1989).

127. CONGRESSIONAL BUDGET OFFICE, *supra* note 18, at 18-19. Section 2.1 of GATT provides that

products imported from the territory of any Party shall be accorded treatment no less favourable than that accorded to like products of national origin and to like products originating in any other country in relation to such technical regulations or standards. They shall likewise ensure that neither technical regulations nor standards themselves nor their application have the effect of creating unnecessary obstacles to international trade.

General Agreement on Tariffs and Trade Multilateral Negotiations: Agreement on Technical Barriers to Trade, March 29, 1979, art. 2, § 2.1, 18 I.L.M. 1079, 1082-83.

128. General Agreement on Tariffs and Trade Multilateral Negotiations: Agreement on Technical Barriers to Trade, March 29, 1979, art 1.3, 18 I.L.M. 1079, 1082. Article 1.3 of the agreement includes "industrial and agricultural products." *Id.*

129. *Id.* § 14.2, at 1098. Section 14.2 provides that

[if] any Party considers that any benefit accruing to it, directly or indirectly, under this Agreement is being nullified or impaired, or that the attainment of any objective of this Agreement is being impeded by another Party or Parties, and that its trade interests are significantly affected, the Party may make written representations or proposals to the other Party or Parties which it considers to be concerned.

can be formed to devise a solution to the problem.¹³⁰

Special 301 encourages the use of bilateral negotiations, such as GATT's expert panel process, for resolution of the trade problem.¹³¹ Additionally, Special 301 provides for tolling of the responsive action mechanism once a GATT panel has determined that the United States' rights are not violated.¹³² However, these actions occur only after the President has labeled an offending nation as an "unfair trader" by placing that nation on the priority list and publishing this status in the Federal Register.¹³³ Although this action alone carries no direct economic effect, some of GATT's member nations have bristled at the accusation of being an unfair trader and have indicated that such branding makes future negotiations more difficult.¹³⁴

A final area of conflict involves Special 301's treatment of developing countries. GATT acknowledges that developing countries are confronted by special problems and recognizes that developed countries should "take account of the special development, financial and trade needs of developing countries."¹³⁵ Accordingly, developed nations should "provide differential and more favourable treatment to developing countr[ies]."¹³⁶ In violation of this objective, Special 301 does not differentiate between developing and developed nations in its identification of priority countries.

Most of the countries cited for abuse of U.S. intellectual property rights are historically considered developing countries. However, many of these same nations are now exporting sizable amounts of products¹³⁷ and are crossing over from the developing stage to the

130. *Id.* § 14.9, at 1099. The independent expert group would "examine the matter; consult with the Parties to the dispute and give full opportunity for them to develop a mutually satisfactory solution; make a statement concerning the facts of the matter; and make such findings as will assist the Committee in making recommendations or give rulings on the matter . . ." *Id.* at 1099-1100.

131. 19 U.S.C.A. § 2411(a)(2)(A) (West Supp. 1989).

132. *Id.* § 2411(a)(2)(A)(ii)(I).

133. *Id.* § 2242(a).

134. *USTR Defends Administration's Naming of Japan, India, Brazil Under Super 301*, Int'l Trade Rep. (BNA) 684 (May 31, 1989). After being placed on the Super 301 priority list, Japan reacted angrily and threatened to refuse to participate in future negotiations. *Id.* at 685. Japan's Vice Minister of Trade, Shigeo Muraoka, declared that the United States' action contravened GATT, and said, "We should seriously question ourselves what would happen to the GATT if many other countries' follow the United States' example." Pine, *Trade Leaders Pledge World Pact in 1990*, L.A. Times, June 5, 1989, § IV, at 2, col. 6.

135. General Agreement on Tariffs and Trade Multilateral Negotiations: Agreement on Technical Barriers to Trade, Mar. 29, 1979, art. 12.3, 18 I.L.M. 1079, 1095.

136. *Id.*

137. INTERNATIONAL MONETARY FUND, *supra* note 2, *passim*. For example, in 1988,

status of developed nations. These countries must therefore accept the responsibility of such status. Secondly, protection of intellectual property rights may hasten developing nations' progress towards developed status, by encouraging investment by U.S. industrial interests in these countries.¹³⁸ Lastly, the United States provides many developing countries with a variety of benefits ranging from reduced tariffs to direct financial aid, under various provisions of the U.S. trade laws.¹³⁹ Thus, the United States has more than satisfied its commitment to this GATT objective.

B. *The Paris Convention*

The second major multilateral agreement affected by Special 301 is the Paris Convention, under the sponsorship of WIPO.¹⁴⁰ The Paris Convention provides a format and standards for the international protection of certain types of intellectual property, namely patents, trademarks and industrial designs. The United States has been a signatory to the agreement since May 30, 1887.¹⁴¹ However, the United States has found the Paris Convention unsatisfactory because the treaty provides very little substantive intellectual property protection.¹⁴²

The primary objection which the United States has with the Paris Convention involves the extreme laxity of the agreement's rules.¹⁴³ For example, the Paris Convention provides:

Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals . . . [T]hey shall have the same protec-

Brazil had \$33.7 billion of total exports, India had \$13.3 billion, and Thailand had \$15.8 billion. *Id.* at 111, 222, 378.

138. *USTR Defends Administration's Naming of Japan, India, Brazil Under Super 301*, Int'l Trade Rep. (BNA) 684 (May 31, 1989). Carla Hills, USTR, defended United States action against developing countries by stating, "[h]ow better to get capital in to provide jobs for their people and real opportunity to make them have the money in their pockets to be investors themselves? We think it has a terrific potential." *Id.*

139. *See, e.g.*, 19 U.S.C. § 2701 (1988) (provides duty-free treatment to developing nations in the Caribbean basin and Central America); *id.* § 2461 (provides duty-free treatment to developing nations as specified by the President); 22 U.S.C. § 4701 (1988) (provides undergraduate scholarships to students from developing nations); *id.* § 2151 (provides economic assistance to developing countries to foster development of economic, political and social institutions).

140. Paris Convention, *supra* note 19.

141. PATENTS, *supra* note 19, at B-47.

142. Gadbow & Gwynn, *supra* note 54, at 49, 52.

143. *Id.*

tion as the latter, and the same legal remedy against any infringement of their rights.¹⁴⁴

In other words, member countries are not required to enact any national laws protecting intellectual property, but any laws that are enacted must be non-discriminatory against foreigners. Consequently, almost every one of the Special 301 watch list nations are in full compliance with the terms of the Paris Convention, since they provide no intellectual property protection to either foreigners or to their own domestic industry.

A second objection the United States has with the Paris Convention is that it has virtually no means of enforcement. Under article 28 of the agreement, disputes between member nations are brought before the International Court of Justice for adjudication, unless the countries in question agree on another method of settlement.¹⁴⁵ However, the same article also gives member nations the option of not being bound by the dispute resolution provision.¹⁴⁶ Therefore, if a member nation attempts to bring a complaint against another member for an alleged violation, the accused member may avoid any resolution of the complaint and continue the offending practice unabated.

Between lax rules and non-enforcement, the Paris Convention agreement provides practically no intellectual property protection for its members. As an example of the agreement's ineffectiveness, the WIPO Secretariat granted membership to India, a nation with virtually no intellectual property protection, without requiring any change in its laws or practices.¹⁴⁷

A third area of dispute over the Paris Convention is that the agreement allows member nations to grant compulsory licenses to insure that registered patents are put into commercial use.¹⁴⁸ This practice has been criticized by United States private sector interest groups as an unfair trade practice, since it takes the use of the patent out of the control of the inventor.¹⁴⁹

Although provisions of Special 301 do not directly conflict with those of the Paris Convention, the agreements will conflict in practice. Special 301 is intended to be used to combat inadequate intellectual

144. Paris Convention, *supra* note 19, art. 2(1).

145. *Id.* art. 28(1).

146. *Id.* art. 28(2).

147. Gadbow & Gwynn, *supra* note 54, at 49.

148. Paris Convention, *supra* note 19, art. 5.

149. *Hearings*, *supra* note 7, at 82. See discussion of United States opposition to compulsory licenses at section II of this Comment.

property protection and violations of international law and agreements.¹⁵⁰ However, Paris Convention member nations that inadequately protect intellectual property are not in violation of the Paris Convention so long as their national laws are non-discriminatory.¹⁵¹ Therefore, the United States' responsive action under Special 301 could conceivably punish nations for practices which are consistent with international law.

C. *Bilateral Trade Agreements*

In order to curb specific instances of intellectual property piracy, the United States pursues numerous bilateral trade agreements directly with offending nations. Bilateral agreements represent an important element in resolving these trade disputes and can improve the chances of reaching multilateral agreement.¹⁵² However, they have also been criticized for conflicting with multilateral objectives.¹⁵³ Bilateral trade discussions are underway with Brazil, India, Thailand, Malaysia, Canada, Japan, Egypt, Saudi Arabia, Turkey and Mexico.¹⁵⁴ Agreements have already been reached with Indonesia, Taiwan and Singapore.¹⁵⁵ By definition, these trade agreements will not conflict with Special 301. Once the nations agree to curb intellectual property abuses, Special 301 is no longer necessary.

V. ACHIEVING INTELLECTUAL PROPERTY PROTECTION WITHOUT ACTUALLY TAKING RESPONSIVE ACTION

Despite the criticism, Special 301 has had a positive effect in forcing the issue of intellectual property piracy to the forefront.¹⁵⁶

150. See 19 U.S.C.A. § 2242(b) (West Supp. 1989).

151. See Paris Convention, *supra* note 19, art. 2(1).

152. *Oversight Hearings*, *supra* note 66, at 60. Once countries have improved levels of protection afforded to intellectual property, they would be more amenable to support either a GATT or WIPO sponsored agreement. *Id.*

153. Interview, *supra* note 17. Ambassador Preeg maintains that bilateral agreements are the "antithesis" of multilateral agreements and should be avoided if they will undercut the multilateral agreements. *Id.*

154. *Hearings*, *supra* note 7, at 92; *Efforts To Negotiate Bilateral Agreements To Curb Piracy Continuing*, PTO Official Says, Int'l Trade Rep. (BNA) 1433-34 (Oct. 26, 1988). According to Ann Hughes, Deputy Assistant Secretary, U.S. Department of Commerce, bilateral activities have led to the "greatest progress" in resolving trade disputes. *Hearings*, *supra* note 7, at 92.

155. *Recent Progress on Intellectual Property Matters*, Int'l Trade Rep. (BNA) 719-20 (May 31, 1989); *Efforts To Negotiate Bilateral Agreements To Curb Piracy Continuing*, PTO Official Says, Int'l Trade Rep. (BNA) 1433 (Oct. 26, 1988).

156. *Intellectual Property Is Priority Issue for Midterm Review*, Canadian Official Says,

This may provide the needed momentum to obtain an acceptable multilateral agreement. The positive effect of this momentum could be further enhanced by applying other kinds of non-retaliatory unilateral U.S. action.

A. Efforts to Enhance Existing Multilateral Agreements

Although developed nations are increasingly interested in expanding international intellectual property protection, thus far there has been no tangible progress in achieving real agreement. This may change since the GATT member nations are now attempting to expand GATT to cover intellectual property protection. Multilateral discussions of intellectual property protection under the GATT framework began in September 1986 in Punta del Este, Uruguay; these discussions have come to be known as the Uruguay Round.¹⁵⁷ This was the eighth such round of talks since the formation of GATT and was intended to address a number of problems with GATT, especially intellectual property protection.¹⁵⁸

Recognizing the importance of intellectual property rights to trade, the GATT members established clear negotiating objectives for the Uruguay Round talks. The stated objectives are as follows:

In order to reduce the distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade, the negotiations shall aim to clarify GATT provisions and elaborate, as appropriate, new rules and disciplines.¹⁵⁹

The objectives focus on developing a multilateral framework for protecting and enforcing intellectual property along the lines of existing GATT initiatives and stress that the framework should not conflict with initiatives taken by WIPO.¹⁶⁰

Despite this rhetoric, the Uruguay Round has not yielded signifi-

Int'l Trade Rep. (BNA) 1402 (Oct. 19, 1988). Canada's ambassador for multilateral negotiations, Sylvia Ostry, identified intellectual property protection as the top issue before the GATT. *Id.*

157. General Agreement on Tariffs and Trade: Ministerial Declaration on the Uruguay Round of Multilateral Trade Negotiations, Sept. 20, 1986, 25 I.L.M. 1623 (1986).

158. CONGRESSIONAL BUDGET OFFICE, *supra* note 18, at 42.

159. General Agreement on Tariffs and Trade: Decisions on Negotiating Structure and Plans for the Uruguay Round, Jan. 28, 1987, 26 I.L.M. 850, 855 (1987).

160. *Id.*

cant progress. At the Uruguay Round Midterm Review in April 1989, the GATT ministers renewed their agreement on broad objectives for intellectual property rights negotiations and the importance of reducing tensions.¹⁶¹ They further agreed that negotiations should include the development of a multilateral framework of principles, rules and disciplines.¹⁶² However, no specific agreement was reached.

Developing nations, notably Brazil and India, have been largely responsible for the impasse by objecting to the inclusion of intellectual property protection in GATT.¹⁶³ These countries maintain that intellectual property protection should be dealt with by WIPO and that it does not belong in GATT.¹⁶⁴ Leading the critics, India has declared that "[p]rotection of intellectual property rights has no direct or significant relationship to international trade It would therefore not be appropriate to establish within the framework of the General Agreement on Tariffs and Trade any new rules and disciplines concerning the availability, scope and use of intellectual property rights."¹⁶⁵ Since GATT governs trade relations between nations, and enforcement of intellectual property is internal to an individual nation's jurisdiction, India maintains that the two concepts are incompatible.¹⁶⁶

The position taken by the developing countries stems partly from the historic split between GATT and WIPO. Developing nations have historically gravitated to WIPO where they now hold a greater degree of control.¹⁶⁷ In contrast, the developed nations have grown more accustomed to managing their trade issues under the GATT forum.¹⁶⁸ Naturally, the developed nations feel more comfortable and

161. General Agreement on Tariffs and Trade: Decisions Adopted at the Mid-Term Review of the Uruguay Round, Apr. 8, 1989, 28 I.L.M. 1023, 1030-31 (1989).

162. *Id.*

163. OPERATION OF THE TRADE AGREEMENTS PROGRAM, 40TH REPORT, USITC PUB. NO. 2208, 10 (1988).

164. *Indian Proposal Says Developing Countries Should Get Patent, Trademark Concessions*, Int'l Trade Rep. (BNA) 953 (July 19, 1989); *Nordic Countries Attempt To Break Deadlock on Bringing Intellectual Property into GATT*, Int'l Trade Rep. (BNA) 1402 (Oct. 19, 1988).

165. *Indian Proposal Says Developing Countries Should Get Patent, Trademark Concessions*, Int'l Trade Rep. (BNA) 953 (July 19, 1989).

166. *India Accepts Policing of Trade-Related Intellectual Property Rights in MTN Talks*, Int'l Trade Rep. (BNA) 1176 (Sept. 20, 1989).

167. Gadbow & Gwynn, *supra* note 54, at 49. Over the years, developing nations have consistently resisted efforts by the developed nations to enhance intellectual property protection under the Paris Convention. *Id.* at 40.

168. *Id.* at 42. GATT has gained the reputation of being an institution that is capable of addressing and resolving disputes in the trade area. *Id.*

in control if the issue is kept before GATT and have resisted calls to shift it to WIPO.¹⁶⁹ Since the intellectual property protection scheme provided under WIPO is largely inadequate, shifting the issue to that forum would likely doom it to failure.

While U.S. negotiators at the Uruguay Round have attempted to focus attention on the development of a new multilateral agreement to protect intellectual property, their efforts have been sidetracked by fallout from the Special 301 action taken against Brazil. The United States had responded to Brazil's failure to protect pharmaceutical patents by placing tariffs totaling \$39 million on Brazilian imports to the United States.¹⁷⁰ A recent GATT report criticized the United States' unilateral action as being inconsistent with its multilateral commitments to GATT.¹⁷¹ Responding to the economic sanctions, Brazil filed a complaint with GATT alleging that the U.S. action contravened GATT.¹⁷² While the United States has attempted to downplay the situation, Brazil has initiated a GATT expert panel to examine the legality of the U.S. action.¹⁷³ A GATT panel finding that the United States acted illegally may preclude the United States from taking responsive action against other priority countries and may enable Brazil to respond with equivalent sanctions against the United States, effectively nullifying the U.S. action.

The Uruguay Round deadlock appears to have finally broken as India, on September 12, 1989, accepted the principle of protecting intellectual property rights under GATT.¹⁷⁴ As a compromise, India said that it would not contribute any additional money to cover the enforcement mechanism that GATT eventually develops.¹⁷⁵ An even more surprising development occurred in December of 1989, when Brazil presented its own plan to begin enforcing intellectual property

169. See *Intellectual Property Is Priority Issue for Midterm Review, Canadian Official Says*, Int'l Trade Rep. (BNA) 1402 (Oct. 19, 1988).

170. *Reagan, Charging Patent Piracy, Imposes Sanctions on \$39 Million of Brazilian Goods*, Int'l Trade Rep. (BNA) 1415 (Oct. 26, 1988). See associated text in this Comment, Section III(B).

171. *U.S. Commitment to Uruguay Round Perceived As Inconsistent with Policies, Report Finds*, Int'l Trade Rep. (BNA) 1646 (Dec. 20, 1989).

172. OPERATION OF THE TRADE AGREEMENTS PROGRAM, 40TH REPORT, USITC PUB. NO. 2208, 135 (1988).

173. *U.S. Accepts Creation of GATT Panel To Study Sanctions on Brazilian Pharmaceutical Goods*, Int'l Trade Rep. (BNA) 238 (Feb. 22, 1989).

174. *India Accepts Policing of Trade-Related Intellectual Property Rights in MTN Talks*, Int'l Trade Rep. (BNA) 1176 (Sept. 20, 1989).

175. *Id.*

protection under the auspices of GATT.¹⁷⁶ Although the Uruguay Round ends in December 1990, GATT negotiators are optimistic that an agreement can be reached by that time.¹⁷⁷

The dramatic change of position by the developing nations represents a significant breakthrough in attaining the goal of the international protection of intellectual property. It is certainly no coincidence that this occurred so soon after placing both India and Brazil on the Special 301 watch list. However, it still remains uncertain whether the current interest in intellectual property protection will result in any substantive agreement¹⁷⁸ or whether the change in heart was intended only to forestall additional responsive action against the two watch list countries. Realizing an effective multilateral agreement will solve the critical problem of piracy of intellectual property and render the question of unilateral action under Special 301 moot.

B. Unilateral Alternatives to Special 301 Retaliation

In addition to the unilateral retaliatory actions under Special 301, the United States could consider other types of unilateral action. The Senate has specifically recommended two alternative solutions, which were both eliminated during the negotiations for the Trade Act of 1988.¹⁷⁹ One rejected Senate amendment would have furnished financial assistance to aid developing countries in establishing systems for implementing intellectual property laws.¹⁸⁰ The other Senate proposal would have established an Intellectual Property Training Institute, which would have trained individuals from developing countries in management and technical skills involved with the protection of intellectual property.¹⁸¹ While these initiatives were presumably rejected because of their cost, they might be of little real benefit without

176. *European Community, Brazil Submit Proposals To Integrate Intellectual Property into GATT*, Int'l Trade Rep. (BNA) 1663 (Dec. 20, 1989). Under the Brazilian plan, a GATT agreement would cover trade related aspects of intellectual property but standards for national protection would remain under the auspices of the Paris Convention. *Id.* at 1664.

177. *Id.* at 1663.

178. *See, e.g., Intellectual Property Is Priority Issue for Midterm Review, Canadian Official Says*, Int'l Trade Rep. (BNA) 1402 (Oct. 19, 1988). Attempts to reach an agreement on counterfeiting during the Tokyo Round (the previous round of GATT talks) ended in failure. Intellectual property protection was also left out of the U.S.-Canada free trade agreement because of the issue's complexity. *Id.*

179. H.R. CONF. REP. NO. 576, 100th Cong., 2d Sess. 787, reprinted in 1988 U.S. CODE CONG. & ADMIN. NEWS 1820.

180. *Id.*

181. *Id.*

first convincing developing nations of the importance of intellectual property protection. The initiatives could be revived at a later time.

The United States could also consider making major concessions in order to get foreign intellectual property laws enacted. For instance, trade negotiators are considering a significant change to U.S. patent law to obtain other concessions from the Japanese.¹⁸² This proposed change centers on abandoning the first-to-invent system practiced in the United States in favor of the first-to-file system practiced in most of the rest of the world.¹⁸³ Such a concession would be a considerable change to the U.S. patent law system and has been criticized as reducing the amount of protection to U.S. inventors.¹⁸⁴ If the change results in a substantive trade agreement for intellectual property protection, it would be a positive step.

Along the same lines, the United States could consider softening its stand on compulsory licensing. Practically every other nation allows mandatory licensing, leaving the United States virtually alone in opposing it.¹⁸⁵ Nations that take the step to protect U.S. patents should be rewarded by either putting the invention to use or allowing domestic industries to use the idea. It would cost U.S. industry little to simply not pursue patents in nations where they have no interest in using the invention.

Finally, the United States could try harder to show the developing world the benefit of intellectual property protection. The Commerce Department has already instituted training programs and educational seminars for this purpose.¹⁸⁶ This could be enhanced by providing incentives to U.S. corporations to locate their operations in developing nations in exchange for those nations instituting intellectual property protection. This solution would help developing countries by giving them needed technology and products and help the United States by increasing its exports.

Even among the pirate nations, there is not a complete consensus on whether there should be a denial of intellectual property protec-

182. *U.S. May Consider Dropping First-To-Invent Rule To Get Japanese Changes, Panel Told*, Int'l Trade Rep. (BNA) 305 (Mar. 8, 1989).

183. The first-to-invent system, codified at 35 U.S.C. § 102 (1982), protects the first inventor and is perceived in the United States as being a more fair system. Most countries use a first-to-file system, which often results in a race to the patent office. *Id.*

184. *U.S. May Consider Dropping First-To-Invent Rule To Get Japanese Changes, Panel Told*, Int'l Trade Rep. (BNA) 305-06 (Mar. 8, 1989).

185. PATENTS, *supra* note 19, at U-50; Comment, *supra* note 47, at 667.

186. *Hearings, supra* note 7, at 95.

tion. The violators of intellectual property rights are often well educated industrialists with strong political ties, who stand to lose much from increased protection.¹⁸⁷ Government leaders are also opposed to increased protection if it means higher prices on commodities for the consumers.¹⁸⁸ However, there are supporters for increased protection, chiefly among innovators, local trading companies and foreign based investors.¹⁸⁹ The United States could try harder to reach these local supporters of increased intellectual property protection and encourage them to work for changes in their national laws.

VI. CONCLUSION

The United States must convince the developing world that strong intellectual property protection is in every nations' best interest. Since most developing nations have little or no intellectual property of their own and lack the technical expertise and financial resources to produce any, they have trouble becoming motivated to protect it. On the other hand, developed nations have discovered that protection provides incentives for research, by rewarding inventors for their efforts and repaying the high cost of development. Where a nation fails to protect these rights, there is no incentive for industry to bring technology there. If developing nations want the developed countries to supply new technology that will bring them into the developed world, they must insure that this technology will be protected.

Unfortunately, too much energy has been expended at the Uruguay Round in condemning and defending unilateral U.S. action under Special 301, rather than in reaching the core issue—protection of intellectual property rights. Despite the recent breakthroughs, the United States must continue to exert pressure on GATT to realize a multilateral intellectual property agreement and resist pressures from foreign critics of Special 301. Additionally, the United States must also continue to pursue bilateral agreements with its trading partners to fill the gaps left by the multilateral agreements. The United States is a major trading partner of virtually all developing and developed countries, and our intellectual property is considered to be "one of

187. Gadbow & Richards, *supra* note 42, at 15.

188. *Id.*

189. *Id.*

our most valuable trade commodities."¹⁹⁰ If GATT and WIPO, two multilateral organizations, fail to protect this important U.S. interest, it is questionable whether the United States should remain a party to these groups.

The pirates of the 17th century forced their victims to "walk the plank" to encourage them to disclose the whereabouts of buried treasure.¹⁹¹ Similarly, Special 301 encourages foreign nations to protect U.S. rights under threat of economic punishment. Accordingly, the United States should be prepared to use Special 301 to "assist" the multilateral and bilateral negotiations. Special 301 is a formidable political weapon in fighting the international trade wars. President Bush has not precisely applied Special 301 as Congress had envisioned; Congress had expected far greater use of the responsive action. However, the President has discovered that the mere threat of using the weapon is just as effective in getting the intellectual property pirates to the negotiating table as is the use of the weapon itself. The Director of the Intellectual Property Office for the USTR praised Special 301 for providing the administration with a tool

which to this point has succeeded in getting attention of countries which otherwise may not have paid as much attention to these issues . . . and I am optimistic that it will continue to accomplish the objective of getting us into a negotiating environment where we can resolve issues by dialogue and discussion rather than confrontation.¹⁹²

The three pronged strategy of multilateral and bilateral negotiations backed by unilateral measures should prove to be very forceful in achieving and enforcing effective intellectual property agreements.¹⁹³ By relying on these combined efforts, the United States will make intellectual property pirates "walk the plank."

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190. *Hearings, supra* note 7, at 102 (statement of A. Hughes, Deputy Assistant Secretary for the Western Hemisphere, U.S. Department of Commerce).

191. BREWER'S DICTIONARY OF PHRASE AND FABLE 872 (I. Evans rev. ed. 1981).

192. *USTR Official Says 1988 Trade Act's Intellectual Property Provision Working*, Int'l Trade Rep. (BNA) 674 (Apr. 27, 1989).

193. *Role of Intellectual Property in Global Competition Explored*, Pat. Trademark & Copyright J. (BNA) 302 (July 23, 1987).

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