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I. Introduction

Safeguarding intellectual property rights (trademarks,[1] copyrights,[2] patents,[3] trade secrets,[4] and semiconductor chip, designs[5]) from foreign infringers has emerged as one of the most important trade policy goals of the United States during the 1980s.[6] Previously, the U.S.

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1. "A trademark is any word, name, symbol, or device, or any combination thereof, adopted and used by a manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others." Foreign Protection of Intellectual Property Rights and the Effect on U.S. Industry and Trade, USITC Pub. 2065, 1-2, Inv. No. 332-245 (February 1988) [hereinafter Foreign Protection of Intellectual Property].

2. "A copyright is a form of protection provided by a national government to authors of original works of authorship including literary, dramatic, musical, artistic and certain other intellectual works." *Id.* at 1-3.

3. "A patent is a grant issued by a national government conferring the right to exclude others from making, using, or selling the invention within the national territory." *Id.*

4. "A trade secret is information, including a formula, pattern, compilation, program, device, method, technique, or process that derives independent economic value, actual or potential, from not being generally known, and not being readily ascertained by proper means, by other persons who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." *Id.* at 1-4.

5. "[M]ask work protection exists for original mask works fixed in a semiconductor chip product by, or under the authority of the owner of the mask work, which has been registered or commercially exploited anywhere in the world." *Id.* at 1-5.

6. General Accounting Office, *Strengthening Worldwide Protection of Intellectual Property Rights*, GAO/NSI AD-87-65 (1987) [hereinafter GAO, *Intellectual Property Rights*].

government viewed the inadequacy of intellectual property protection in overseas markets as a technical matter. In recent years, however, it has become apparent that extensive intellectual property protection is indispensable for rewarding innovation—perhaps the most significant advantage United States companies have over their foreign competitors. Absent worldwide respect for the protection of intellectual property rights, American companies are unable not only to obtain the rewards for their inventions—which translate into sales, profits, and employment—but also to finance research and development for the next generations of their products.

American companies feel the sting of infringement worldwide. Losses from inadequate intellectual property protection occur in the country where the infringing products are made, in third countries to which the products are exported, and in the United States where infringing products are imported. The U.S. International Trade Commission (ITC) estimated that 6 to 8 billion American dollars in annual sales were lost in 1984 by United States industry due to foreign product counterfeiting, passing off, and copyright and patent infringement.[7] More recently, the ITC reported that losses for 1986 have increased to 23.8 billion dollars.[8]

United States trade policy has focused on two concerns regarding intellectual property rights: one, protecting American intellectual property rights in the United States from foreign infringements, and two, ensuring protection of United States intellectual property rights in foreign countries.[9] The United States government has taken an increasingly active role in seeking improvements in foreign intellectual property laws. This article focuses on protection of U.S. intellectual

7. The Effects of Foreign Product Counterfeiting on U.S. Industry, USITC Pub. 1479, Inv. No. 332-158 (January 1984) [hereinafter Foreign Product Counterfeiting].

8. Foreign Protection of Intellectual Property, *supra* note 1, at 4-1.

9. An important procedure for preventing infringement by foreign entities in the U.S. is litigation of intellectual property cases before the U.S. International Trade Commission (ITC) pursuant to Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337 (1983). Section 337 litigation has a number of advantages over litigation in the Federal courts, including: (1) a statutory deadline of one year in most cases and 18 months in more complicated cases (as compared to typically lengthy Federal District Court proceedings.) [19 U.S.C. § 1337 (b)(1) (1983)]; (2) a lack of jurisdictional problems over foreign entities because Section 337 confers *in rem* jurisdiction, *i.e.*, jurisdiction over the imported goods; and (3) a more effective remedy in most ITC cases than federal district courts—a general exclusion order which directs the Customs Service to exclude from the U.S. infringing products made by any entity, not just the entities that were parties in the ITC Proceedings. *See* T. VAKERICS, D. WILSON, & K. WEIGEL, ANTIDUMPING, COUNTERVAILING DUTY AND OTHER TRADE ACTIONS, at 485-551 (1987) [hereinafter VAKERICS, WILSON & WEIGEL]. The Omnibus Trade and Competitiveness Act of 1988 amended § 337 in several respects that will make it a more effective remedy. H.R. REP. No. 4848, 100th Cong., 2nd Sess. 258-68 (1988).

property rights in foreign countries through the use of the trade laws and through bilateral and multilateral negotiations. Specifically, this analysis addresses:

(1) Section 301 of the Trade Act of 1974;[10]

(2) bilateral negotiations between the United States and other countries which have been based, in part, on Section 301 and the Generalized System of Preferences (GSP);[11] and

(3) multilateral negotiations for the improvement of foreign intellectual property laws, the General Agreement on Tariff and Trade (GATT) negotiations, and the World Intellectual Property Organization (WIPO).

II. Section 301 and its Application to Foreign Intellectual Property Protection Laws

A. *The United States Trade Representative (USTR) and Section 301 Procedures*

Section 301 provides a means for ensuring that United States exporters have the opportunity to gain access to foreign markets.[12] Section 301 allows U.S. exporters to overcome barriers that have been created by foreign governments against imports by filing a petition with the USTR.[13] Through the petition process, the President is requested to take action in response to any act, policy, or practice of a foreign country that is inconsistent with any U.S. trade agreement or unjustifiably burdens United States commerce.[14]

If the USTR finds that actions of a foreign country (or its instrumentality) requires a response, the USTR is directed to take all appropriate and feasible action within his power to enforce the rights of U.S. exporters, or to eliminate the policy or practice.[15] In enforcing

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10. Section 301 of the Trade Act of 1974 is considered to be a tool for improvement of foreign intellectual property laws providing authority for the President of the United States to effect the elimination of unfair trade practices by foreign governments that are harmful to U.S. commerce. 19 U.S.C.S. § 2411 (Law. Co-op. 1983 & Supp. 1988). *See infra* notes 13, 15, 16 and accompanying text.

11. The GSP grants duty-free treatment to certain imported articles from less developed countries. 19 U.S.C.S. §§ 2461-2464 (Law. Co-op. 1983 & Supp. 1988). *See infra* notes 87-94 and accompanying text.

12. Vakerics, Wilson & Weigel, *supra* note 9, at 413.

13. 19 U.S.C.S. § 2412 (Law. Co-op. 1983 & Supp. 1988).

14. 19 U.S.C.S. § 2411 (Law. Co-op. 1983 & Supp. 1988).

15. The Omnibus Trade and Competitiveness Act of 1988 (1988 Trade Act) requires the USTR to take action against foreign governments when the foreign government violates a

the rights of United States exporters the USTR may, among other things, suspend or withdraw the benefits of trade agreement concessions, or impose duties or other import restrictions on the products of the foreign country or instrumentality for such time as he determines appropriate.[16]

During 1983, Congress conducted hearings to consider amending Section 301 to explicitly apply to the failure of foreign governments to provide adequate and effective enforcement of intellectual property rights. The U.S. House of Representatives Committee on Ways and Means issued a report on the House version of the bill. The report expressed the Committee's belief that it was "important to address the growing worldwide problem of intellectual property right protection on a general basis . . . ."[17] The Senate Finance Committee reported that it had received testimony concerning the adequacy and effectiveness of the protection of patent holders. The Senate Committee expressed its concern that:

> [b]road areas of invention not subject to patent coverage in foreign countries, such as chemical products; unreasonable forced licensing and forfeiture provisions for patents; unduly short rights involving the inability to enjoin infringement; very low or token fines where infringement is proved, [sic] protracted delay of proceedings with no interim relief available to the patent holder; and practically impossible burdens of proof of process infringement placed on patent holder and the like.[18]

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trade agreement or acts in an "unjustifiable" manner, *i.e.*, is inconsistent with U.S. international legal rights and burdens or restricts U.S. commerce.

Exceptions to the mandatory action requirement are:

> (1) Determinations of the General Agreement on Tariffs and Trade adverse to the U.S. determinations [*See infra*, text accompanying notes 137-43]; (2) situations where the foreign country is taking or agrees to take satisfactory remedial action; (3) satisfactory compensating benefits have been offered; and (4) action that would cause serious harm to U.S. national security or have a disproportionate adverse impact on the U.S. economy. H.R. 484, § 1301, which creates a revised § 301 (a), 19 U.S.C. § 2411(a).

Lack of protection of intellectual property is an "unreasonable act, but does not require mandatory action. H.R. 4848, § 1301, which revises § 301(b). 19 U.S.C. § 2411(b).

16. The USTR is authorized to:

> (A) suspend, withdraw, or prevent the application of, benefits of trade agreement concessions to carry out a trade agreement with the foreign country . . . .
> (B) impose duties or other import restrictions on the goods of, and, notwithstanding any other provision of law, fees or restrictions on the services of, such foreign country for such time as the Trade Representative determines appropriate." H.R. 4848, § 1301, which amends § 301(c). 19 U.S.C. § 2411(c).

17. H.R. REP. No. 383, 98th Cong., 2d Sess. 11 (1984), *reprinted in* 1984 U.S. CODE CONG. & ADMIN. NEWS 5048 [hereinafter H.R. REP. No. 383].

18. S. REP. No. 24, 98th Cong., 1st Sess. 7 (1983).

During the Senate hearings, the International Anti-Counterfeiting Coalition submitted a statement that commercial counterfeiting had become a prevalent international practice.[19] The Coalition reported that commercial counterfeiting not only caused billions of dollars of losses to trademark and copyright owners, but threatened the health, safety, and physical well-being of consumers as well.[20]

The Trade and Tariff Act of 1984 (1984 Trade Act) amended Section 301 to ensure "that foreign countries provide effective minimum safeguards for the acquisition and enforcement of intellectual property rights and the property value of proprietary data."[21] The amendments clarified the authority of the President to address trade problems caused by countries that were unwilling to strengthen the protection of intellectual property rights. Specifically, "unjustifiable" conduct was amended to include the denial of "national or most-favored-nation treatment, the right of establishment, or protection of intellectual property rights."[22] "Unreasonable" conduct was defined to include, but not be limited to, "any act, policy, or practice which denies . . . adequate and effective protection of intellectual property rights."[23]

The 1984 Trade Act also requires the USTR to analyze foreign policies and practices which constitute significant barriers to the protection of intellectual property exported or licensed by U.S. persons.[24] In its annual report, the USTR must describe the trade impact of such actions and the action it has taken with respect to the trade-distorting practice.[25] Thus, Congress has mandated the identification of inadequacies in foreign intellectual property laws that adversely affect U.S. companies and to take steps toward eliminating those inadequacies.

The recently enacted Omnibus Trade and Competitiveness Act of 1988 (1988 Trade Act),[26] focuses even greater attention on foreign intellectual property problems. The 1988 Trade Act provides for the development of an overall strategy to ensure adequate and effective

19. *Generalized System of Preferences Renewal Act of 1984: Hearings on S 1718 Before the Subcomm. on International Trade of the Senate Comm. on Finance*, 98th Cong., 1st Sess. 162-63 (1983) (statement of the International Anti-Counterfeiting Coalition).

20. *Id.*

21. H.R. Rep. No. 383, *supra* note 17.

22. 19 U.S.C.S. § 2411(e)(4) (Law. Co-op 1983 & Supp. 1988).

23. 19 U.S.C.S. § 2411(e)(3)(C) (Law. Co-op 1983 & Supp. 1988).

24. 19 U.S.C.S. § 2241(a)(1) (Law. Co-op & 1983 & Supp. 1988).

25. 19 U.S.C.S § 2241(b)(2) (Law. Co-op 1983 & Supp. 1988).

26. H.R. 4848, 100th Cong., 2nd Sess. (1988).

protection of intellectual property rights, as well as fair and equitable market access for United States persons that rely on protection of intellectual property rights.[27] The Act provides that within thirty days after issuance of the USTR's annual trade estimate report, the USTR must further identify "priority foreign countries" that deny protection of intellectual property rights.[28] The Act lists three factors to be used in identifying priority countries: countries exhibiting the most onerous acts, policies, or practices; countries whose policies or practices have the greatest adverse impact on potential markets for U.S. products; and countries failing to enter into good faith negotiations or not making significant progress in bilateral or multilateral negotiations aimed at improving intellectual property protection.[29]

The 1988 Trade Act further requires the USTR to initiate investigations of foreign priority countries unless it is determined that such an investigation would be ineffective or detrimental to U.S. economic interests.[30] Moreover, the USTR must determine within nine months of the initiation of the investigation whether the foreign government is denying adequate and effective protection of intellectual property rights.[31] Although the USTR is not required to take action against such countries,[32] there is a presumption that the USTR would take retaliatory action in such cases where there are reasonable indications that such action will be effective in changing the foreign country's practice or barrier.[33] In addition, given the interaction between Congress and the Administration on trade policy issues, there will be considerable pressure for the Administration to take action when the foreign priority government refuses to provide adequate and effective intellectual property protection.

B. *Section 301 Proceedings and Korean Protection of Intellectual Property*

Since the 1984 amendments, Section 301 has become an effective tool for improving foreign intellectual property protection laws. On

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27. *Id.* at 170.
28. *Id.* at 167. The 1988 Trade Act provides in § 1303 that a new section 182 would be added to the Trade Act of 1974. Thus, citations to amendments will refer to Section 182. There are, however, other amendments to existing statutes, as amended. When cited, these amendments will include both the section of the 1988 Trade Act and the amended statute.
29. *Id.* at 171.
30. *Id.* at 143-44.
31. H.R. 4848, *supra* note 26, at 149.
32. *Id.* at 132-33.
33. H.R. Conf. Rep. No. 576, 100th Cong., 2nd Sess. 560 (1988).

November 4, 1985, the USTR, at the direction of the President, initiated a Section 301 investigation into the inadequate protection of United States intellectual property rights by the government of South Korea.[34] United States government officials had initiated negotiations with South Korean representatives more than two years earlier[35] to discuss problems with Korean patent, trademark, and unfair competition practices. At that time, the most pressing concern was denial of product patent protection to United States chemical companies. Because South Korea's patent law did not cover certain types of products and, in other cases, limited the type of protection of patented processes, U.S. chemical companies were greatly affected.[36]

These companies had only recently been granted process patent protection in South Korea but that protection was easily circumvented and, therefore, inadequate. The South Korean government responded that it hoped to introduce legislation to extend product protection for chemical compounds by 1988. When United States representatives were informed that such actions could not be expected until the early 1990s, consultations broke down.[37]

Patent protection, however, was not the sole concern. The USTR characterized South Korea's copyright protection as "virtually nonexistent."[38] United States officials delayed negotiations on copyright issues until November 1984, on the expectation that the new draft Korean Copyright Act would provide effective protection of copyrights. However, the draft failed to assuage United States concerns about a lack of protection for foreign works not first published in South Korea and explicit protection for computer programs. The Korean Copyright Act also failed to meet the minimum standards of international copyright conventions.[39] The draft law was not passed due to a lack of support in the South Korean legislature. However, the South Korean government hoped to pacify United States officials

34. 50 Fed. Reg. 45,883 (1985).

35. In March 1983, a delegation of U.S. officials consulted with Korean officials on patent and trademark issues. The Korean government stated its intention to enforce penalties for infringement more stringently and to examine access by foreign companies to the judicial system. Operation of the Trade Agreements Program, 35th Report 1983, USITC Pub. 1535, 47-48 (June 1984) [hereinafter OTA 35th Report]. Changes in the Korean copyright law were then proposed in 1984. Operation of the Trade Agreements Program, 36th Report 1984, USITC Pub. 1725, 176 (July 1985) [hereinafter OTA 36th Report].

36. OTA 36th Report, *supra* note 35.

37. GAO, *Intellectual Property Rights*, *supra* note 6, at 53.

38. 19 U.S.C.S. § 2241(b)(2) (Law. Co-op 1983 & Supp. 1988).

39. GAO, *Intellectual Property Rights*, *supra* note 6, at 53.

with the promise that a new copyright law would address the concerns of the United States.[40]

Finally, the lack of concrete progress on the part of the South Korean government and the mounting losses to U.S. intellectual property owners from the unauthorized reproduction of copyrighted materials and unauthorized use of U.S. inventions prompted the USTR to take action under section 301.[41] Section 301 allowed the USTR to pressure South Korean government and industry with the threat of retaliation. Once this mechanism was activated, extensive consultations with the South Korean government culminated in a settlement agreement in August of 1986.[42]

As a result of the settlement agreement, South Korea agreed to:

— introduce for enactment by July 1, 1987, comprehensive copyright laws explicitly covering computer software;

— accede to the Universal Copyright Convention and Geneva Phonograms Convention by October 1987;[43]

— introduce amendments to its patent laws to extend product patent protection for chemicals and pharmaceuticals and for new uses of these products;

— adhere to the Budapest Treaty[44] and extend protection to new microorganisms; and

— remove requirements for technology inducement and exportation previously applied to trademarked goods and to remove restrictions on royalty terms in trademark licenses.[45]

The South Korean government passed revised patent, copyright, and software legislation in December 1986, effective as of July 1987. In addition, Korea and the United States agreed to establish a consultative mechanism implementing the settlement agreement and other issues relating to the protection of intellectual property.[46] South Korea also agreed to institute transitional provisions to minimize the disadvantages to U.S. patents owners and to applicants for Korean

40. *Id.* South Korean trademark law was also inadequate. It provided minimal protection of the trademark rights of U.S. companies. ". . ., Korean firms have been permitted to register trademarks similar or even identical to foreign trademarks that [were] not 'well known' in Korea." 51 Fed. Reg. 29,445 (1986).

41. GAO, *Intellectual Property Rights*, *supra* note 6, at 53.

42. 51 Fed. Reg. 29,445 (1986).

43. Universal Copyright Convention and Protocols, Sept. 6, 1952, 6 U.S.T. 2731, T.I.A.S. No. 3324, (as revised 25 U.S.T. 1341, T.I.A.S. No. 7868).

44. Budapest Microorganisms Treaty (on the deposit of microorganisms for the purposes of patent procedures), April 28, 1977, 32 U.S.T. 1241, T.I.A.S. No. 9768, U.K.T.S. 5.

45. 51 Fed. Reg. 29,445 (1986).

46. *Id.* at 29,446.

patents resulting from the limitations of the prior South Korean patent law.[47]

As an enforcement measure, the USTR sought information from United States companies for the purpose of obtaining relief for U.S. patent owners under the transitional provisions. Early in 1988, the USTR requested United States companies with chemical products patented in the U.S. between January 1, 1980 and July 1, 1987, which had not been marketed in either South Korea or the U.S. prior to the effective date of South Korea's new patent law, to submit information concerning the products and the patent coverage of the products. These products would be eligible for protection for ten years.[48] Negotiations are continuing as to which products will receive the benefit of the transitional rule.

The Section 301 investigation did not solve all problems for U.S. manufacturers. The American Association of Book Publishers urged the USTR to reopen the investigation because there were two million South Korean textbooks in the marketplace which infringed U.S.-owned copyrights. Pressure from the United States government resulted in the books being taken off the shelves of bookstores. There is concern, however, that the books may be trickling back to the marketplace. Additionally, other industries (including motion pictures and sporting goods) are concerned about continuing infringement problems.

Accordingly, representatives from the United States government and the South Korean government met to discuss the implementation of the Section 301 settlement agreement. Further meetings are scheduled and it appears that implementation of the agreement will be an ongoing process.

For example, U.S.-based Bristol-Myers Corporation filed a Section 301 action in November 1987, alleging inadequate and discriminatory enforcement of intellectual property laws in Korea.[49] Specifically, Bristol-Myers claimed that, in its attempts to enforce one of its patents, the South Korean courts revealed a bias against foreign expert testimony and required that experiments be conducted in South Korea in order to be admissible in Korean courts. Moreover, Bristol-Myers alleged that the inability to conduct pretrial discovery and to obtain preliminary injunctions to curtail potential infringements had

47. 52 Fed. Reg. 3,369 (1987).
48. GAO, *Intellectual Property Rights*, *supra* note 6, at 53.
49. 5 Inside U.S. Trade, at 1-2 (Nov. 27, 1987).

prevented United States firms from litigating patent infringement cases in South Korean courts.[50] Bristol-Myers withdrew its petition to the USTR after receiving assurances from South Korean officials that the South Korean company (the defendant in the pending Bristol-Myers case) would begin settlement discussions.[51] The settlement negotiations ultimately broke down.

Squibb Corporation had similar problems in Korea. It had a joint venture in South Korea with a Korean pharmaceutical company to manufacture and distribute Capoten, a drug for high blood pressure and congestive heart disease. Another South Korean company, Boryung, was granted a patent for a product that Squibb believed was essentially the same product as Capoten. After Boryung launched its product in February 1988, Squibb filed a Section 301 petition alleging a failure of the South Korean Government to respect Squibb's patent rights, and denial of a product patent protection provided in the South Korean agreement to provide such protection effective July 1, 1987. Squibb withdrew its petition in May 1988 after it learned that Boryung wanted to meet in an effort to settle the infringement.[52]

In response to a request from Bristol-Myers, and as a result of the earlier Section 301 petition by Squibb, the USTR established an Interagency Fact-Finding Task Force (Task Force).[53] The USTR stated that the Task Force was created in response to complaints by United States companies who found that obtaining patent protection in South Korea was unusually difficult and that, once obtained, did not provide adequate and effective protection due to lack of proper enforcement.[54]

The Task Force began an investigation focusing on the treatment of foreign patent applicants in South Korea, the relative success of foreign and South Korean patent applications, and the treatment of foreign patent applications and owners by the South Korean court system.[55]

C. *Brazilian Section 301 Cases*

On September 16, 1985, the USTR initiated a Section 301 investigation of Brazilian law and policies that have restricted United

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50. *Id.*
51. 5 INSIDE U.S. TRADE, at 2 (Dec. 18, 1987).
52. IP Asia 6 (Aug. 25, 1988).
53. 5 Int'l Trade Rep. (BNA) 823 (June 15, 1988).
54. The Task Force was directed to make a preliminary report by December 1, 1988. 53 Fed. Reg. 26,706 (1988).
55. *Id.*

States trade and investment in the informatics (computer and computer-related) sector[56] and have withheld adequate and effective intellectual property protection for U.S. informatics products.[57] The USTR found that the Brazilian Informatics Law has restricted the importation of informatics products to Brazil due to a market reserve policy giving Brazilian companies the exclusive right to manufacture and sell microcomputers and minicomputers, and further limiting foreign sales to the more powerful mainframe computers.[58] The USTR also found that Brazil prohibited foreign subsidiaries of U.S. firms from manufacturing informatics products covered by the market reserve policy. Finally, Brazil customarily withheld full copyright protection to computer software, causing great losses due to software piracy.[59]

On December 30, 1986, the President determined that Brazil had undertaken administrative reforms which, if fully implemented, would reduce the adverse effect on U.S. commerce caused by the Brazilian informatics policy.[60] However, the President found that insufficient progress had been made with respect to the protection of intellectual property rights, particularly computer software and United States investment in Brazilian informatics. The President directed the USTR to attempt to negotiate a settlement of the software and investment issues.[61] Subsequently, on June 30, 1987, the President suspended the intellectual property portion of the investigation based on progress in Brazil toward adequate and effective protection for computer software.[62] However, in September 1987 the Brazilian Secretariat for Informatics (Brazilian Secretariat or Secretariat) rejected agreements between Microsoft Corporation, a U.S. company holding copyrights on the world's leading computer software operating systems for personal computers, and six Brazilian informatics companies.[63] The

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56. For a discussion of the history of Brazil's informatic policy, *see* OTA 36th Report, *supra* note 35, at 184-85.

57. 50 Fed. Reg. 37,608 (1985).

58. 51 Fed. Reg. 35,993 (1986); *see also* J. Commerce, July 27, 1988, at 4B, col. 4. It has been reported that the market reserve policy has resulted in Brazil's producing expensive and obsolete clones of foreign computers and a growing black market of an estimated $300 million of computers and computer parts per year. *Id.*

59. 51 Fed. Reg. 35,993-94 (1986).

60. 52 Fed. Reg. 1,619 (1987).

61. *Id.*

62. 52 Fed. Reg. 24,971 (1987).

63. The Brazilian Government authorized the licensing of Microsoft Corp.'s older MS-DOS 3.3 computer operating system, the most sophisticated version of its operating programs for personal computers. It continued, however, to deny approval to its MS-DOS 3.2 system. In addition, the Brazilian Government refused to license a Brazilian-made computer that Apple Computer, Inc. alleged was a copy of its MacIntosh computer. J. Commerce, July 27, 1988, at 4B, col. 4.

Brazilian Secretariat's decision was based on a finding that a Brazilian-made "functional equivalent" to the software existed for use by Brazilian companies and that the market reserve policy precluded import of the Microsoft operating system.[64]

The USTR interpreted the Brazilian Secretariat's decision as a violation of the understanding that "functional equivalent" determinations would be objective decisions. According to the USTR, the Secretariat's decision established a precedent that effectively bans United States companies from the Brazilian software market. Except for mainframe and similar computers, U.S. computers are already prohibited from participating in the Brazilian hardware market.[65] In response to the Brazilian Secretariat's action, the USTR considered restricting the importation of Brazilian products having a value equal to the lost sales opportunities caused by Brazil's policy. Accordingly, the USTR published a list of products that would be subject to retaliation.[66] As this retaliation was about to take effect, the Brazilian President, President Sarney, exercised his line-item veto authority to veto a provision of a bill that would have imposed high taxes on imported software.[67]

In response to the above changes, the USTR suspended the Section 301 action pending a review of the Brazilian regulations implementing the new software law.[68] ADAPSO,[69] the United States computer software and service trade association, requested that the USTR reopen the investigation because the regulations permitted the Brazilian Secretariat to limit U.S. software companies from marketing in Brazil. ADAPSO was particularly concerned with the fact that the regulations left wide discretion for subjective, rather than objective, decisions on market access issues.[70] The USTR recently stated that it would postpone its decision on whether to retaliate against Brazil until there was a more complete record on the implementation of the new law. However, the USTR expressed disappointment with the

64. 52 Fed. Reg. 44,939 (1987).
65. *Id.*
66. *Id.*
67. 5 INSIDE U.S. TRADE at 3-4 (Dec. 31, 1987).
68. *Citing Progress in Brazil's Software Policy, Administration Puts Import sanctions on Hold*, 5 Int'l Trade Rep. (BNA) No. 9, at 277 (March 2, 1988).
69. The Association of Data Processing Service Organizations. ADAPSO is headquartered in Arlington, Virginia, USA.
70. *ADAPSO Calls on Administration to Reopen Probe of Brazilian Restrictions on Software*, 5 Int'l Trade Rep. (BNA) 788 (June 1, 1988).

lack of clarity in the new law.[71] Moreover, the USTR noted it was opposed in principle to a "functional equivalencies" concept, which permitted the Brazilian government to prohibit the importation of a product if a similar product were available from a Brazilian source.[72]

The USTR's proposed retaliation would not be limited to Brazilian exports of products similar to the U.S. products giving rise to the dispute.[73] For example, Embraer, a Brazilian manufacturer of commuter aircraft, had not been able to enter into any contracts for the sale of aircraft while the proposed retaliation was pending.[74] When the proposal was repealed, Embraer obtained a contract to sell six airplanes to Air West, a U.S. airline.[75] Moreover, Embraer was subsequently allowed to cancel letters of credit that had been required by U.S. airlines as a guarantee that the purchase prices for ordered airplanes would not change if United States retaliatory measures were applied retroactively.[76]

Another Section 301 investigation involving Brazil was initiated on July 23, 1987, in response to a petition filed by the Pharmaceutical Manufacturers Association (PMA).[77] The petition alleged that Brazil had failed to provide both process and product patent protection to pharmaceutical products. In initiating the request for retaliation to the President, the USTR noted that it had previously consulted with Brazil on these issues.[78] During hearings on the case, an official of

71. *Administration Response on Drug Industry Complaint Against Brazil is Expected Soon*, 5 Int'l Trade Rep. (BNA) No. 27, at 1976 (July 6, 1988).

72. *GATT Reform Alone Won't Bring U.S. Farmers Back the Competitive Lead, USTR Yeutter Says*, 5 Int'l Trade Rep. (BNA) No. 27, at 977-78 (July 6, 1988).

73. *Id.*

74. *Id.*

75. *Id.*

76. *Id.*

77. 52 Fed. Reg. 28,223 (1987). The pending Brazilian pharmaceutical case is one of several cases being pursued by the PMA regarding the inadequate patent protection provided by South American countries which include Argentina, Chile and Mexico. PMA asked the USTR to initiate an investigation against Argentina, alleging that Argentina caused U.S. pharmaceutical companies to lose at least $83 million in 1987. J. Commerce, August 3, 1988, at 3A, col. 5. PMA threatened to file an action against Chile after it dropped an earlier case due to the agreement of the Chilean Government to provide full patent protection for products developed by U.S. companies. However, lack of progress led to a breakdown in negotiations between Chile and the United States. 6 INSIDE U.S. TRADE, at 14 (July 1, 1988). Finally, the U.S. has consulted with Mexico concerning its pharmaceutical regulations which allegedly ended the patent and trademark protection of U.S. companies operating in Mexico. Operation of the Trade Agreements Program, 37th Report 1985, USITC Pub. 1871, at 185-86 (June 1986) [hereinafter OTA 37th Report].

78. 52 Fed. Reg. 28,223 (1987). Brazil amended its patent laws in 1969 to permit Brazilian companies to use pharmaceutical inventions without paying of royalties. *USTR Panel Hears Testimony on Section 301 Investigation of Brazilian Pharmaceuticals*, 4 Int'l Trade Rep. (BNA) 1146 (Sept. 23, 1987).

Lederle International, Inc., testified that Lederle had closed its Brazilian pharmaceutical plant because of the lack of patent protection.[79] On July 21, 1988, President Reagan ordered 200 million American dollars in trade sanctions against Brazil for failure to provide patent protection to United States pharmaceutical and chemical manufacturers.[80]

In response, the Brazilian Foreign Relations Ministry stated that Brazil's willingness to propose process patent protection showed its willingness to negotiate. However, it also said that it was considering filing a complaint with the General Agreement on Trade and Tariffs. President Sarney of Brazil stated that the U.S.-proposed action constituted a "violation of basic principles of international law and GATT rules."[81]

D. *Foreign Protection Under Other United States Legislation*

1. *The Caribbean Basin Initiative*

The Caribbean Basin Economic Recovery Act (CBERA),[82] enacted by the United States in 1983, extended duty-free treatment to most imports from designated countries in the Caribbean Basin. Under CBERA, the President designates the countries which are to receive CBERA benefits. Certain U.S. companies were concerned with the unauthorized interception of satellite transmissions of copyrighted materials by some Caribbean governments.[83] The companies responded by persuading Congress to enact a CBERA amendment which prohibited the President from designating any country that engaged in the broadcast of U.S. copyrighted material without the

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79. Another PMA member, Smith, Kline & French Laboratories, testified that the Brazilian policy had cost it $34.6 million in lost sales of an ulcer product (TAGAMET). *USTR Panel Hears Testimony on Section 301 Investigation of Brazilian Pharmaceuticals*, 4 Int'l Trade Rep. (BNA) No. 37, at 1146-47 (Sept. 23, 1987).

80. 53 Fed. Reg. 28,100 (1988). A White House spokesman said:

> Adequate patent protection is the cornerstone of a healthy pharmaceutical industry . . . . By denying this basic commercial right, Brazil permits unauthorized copying of pharmaceutical products and processes that were invented by U.S. firms. This not only deprives American companies of sales, it discourages investment in the research and development of new drugs.

Washington Post, July 20, 1988, at 13, col. 3.

81. *Administration Plans Hearings on Sanctions Against Brazilian Pharmaceutical Patent Case*, 5 Int'l Trade Rep. (BNA) No. 30, at 1056-57 (July 27, 1988).

82. 19 U.S.C. §§ 2701-2706 (1982 & Supp. III 1985 & Supp. IV 1986).

83. H.R. Rep. No. 266, 98th Cong. 1st Sess. 9, *reprinted in* 1983 U.S. Code Cong. & Admin. News 643, 650.

consent of the owner.[84] Also, under CBERA, one of the eleven discretionary criteria[85] to be considered by the President in designating a beneficiary country is the extent to which the country protects intellectual property rights of foreign nationals.[86]

2. *The Generalized System of Preferences*

In 1983, the United States House of Representatives Ways and Means Committee conducted hearings on the renewal of the Generalized System of Preferences (GSP). The GSP grants duty-free treatment to articles entering the U.S. from developing countries. The hearings produced testimony from many U.S. companies regarding the inadequacies of the intellectual property laws in GSP recipient countries. The House Ways and Means Committee reacted to the infringement problem by reporting that it was "extremely concerned about the growing problem of counterfeiting which is costing American jobs, threatening the health and safety of consumers, and

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84. 19 U.S.C. § 2702(b)(5) (1982 & Supp. III 1985).

85. The eleven factors to be considered by the President in designating any country as a "beneficiary country" are:

> (1) an expression by such country of its desire to be so designated;
> (2) the economic conditions in such a country, the living standards of its inhabitants, and any other economic factors which he deems appropriate;
> (3) the extent to which such country has assured the United States it will provide equitable and reasonable access to the markets and basic commodity resources of such country;
> (4) the degree to which such country follows the accepted rules of international trade provided for under the General Agreement on Tariffs and Trade, as well as applicable trade agreements approved under section 2(a) of the Trade Agreements Act of 1979 [19 USCS § 2503(a)];
> (5) the degree to which such country uses export subsidies or imposes export performance requirements or local content requirements which distort international trade;
> (6) the degree to which the trade policies of such country as they relate to other beneficiary counties are contributing to the revitalization of the region;
> (7) the degree to which such country is undertaking self-help measures to promote its own economic development;
> (8) the degree to which workers in such country are afforded reasonable workplace conditions and enjoy the right to organize and bargain collectively;
> (9) the extent to which such country provides under its law adequate and effective means for foreign nationals to secure, exercise, and enforce exclusive rights in intellectual property, including patent, trademark,, and copyright rights;
> (10) the extent to which such country prohibits its nationals from engaging in the broadcast of copyrighted material, including films or television material, belonging to United States copyright owners without their express consent; and
> (11) the extent to which such country is prepared to cooperate with the United States in the administration of the provisions of this title.

19 U.S.C. § 2702(c)(1)-(11) (1982 & Supp. III 1985).

86. 19 U.S.C. § 2702(c)(9) (1982 & Supp. III 1985).

undermining the ability of American businesses to compete in world markets."[87] Similarly, the Senate Finance Committee collected extensive testimony on the practice of counterfeiting and other forms of unfair competition in U.S. and world markets from foreign-made products made or imported in violation of intellectual property rights.[88] The Senate Report cited the 1984 ITC Report as authority for the proposition that countries in East Asia were the most prevalent source of counterfeiting and piracy.[89]

Congress recognized the infringement problem by removing the GSP from the 1984 Trade Act, thereby requiring that the President consider intellectual property issues in determining a country's eligibility for GSP benefits.[90] Specifically, the President must evaluate the extent to which the country is providing adequate and effective means under its laws for foreign nationals to exercise exclusive intellectual rights.[91] The 1984 Trade Act also provides that countries can lose their eligibility for GSP treatment regarding specific products if their exports exceed certain competitive need limits.[92] However, the President can waive the competitive need limits based on advice from the ITC regarding the impact of the waiver on U.S. industry. This advice is to be based, in part, on the extent to which the country provides adequate and effective means for foreign nationals to exercise intellectual property rights.[93] Thus, the amendments to the 1984 Trade Act have created an incentive for developing countries to improve their intellectual property laws.

In implementing the 1984 Trade Act, the USTR has consulted with the major GSP beneficiary countries as well as many of the smaller GSP recipients. During the consultations, the USTR has emphasized the importance of GSP beneficiaries improving their intellectual property systems. According to the USTR, bilateral negotiations between the U.S. and GSP countries have been helpful in obtaining improvements in the intellectual property laws of Taiwan, Singapore, South Korea, and Malaysia. On the other hand, a lack of progress led to reductions in GSP benefits to such countries as Brazil and Mexico.[94]

87. H.R. REP. No. 1090, 98th Cong., 2d Sess. 13 (1984).
88. S. REP. No. 485, 98th Cong., 2d Sess. 10 (1984).
89. *Id.*
90. 19 U.S.C.S. § 2462(c)(5) (Law. Co-op. 1983 & Supp. 1988).
91. 19 U.S.C.S. § 2462 (c)(5) (Law. Co-op. 1983 & Supp. 1988).
92. 19 U.S.C.S. § 2464(c) (Law. Co-op. 1983 & Supp. 1988).
93. 19 U.S.C.S. § 2464 (c)(3)(B) (ii) (Law. Co-op. 1983 & Supp. 1988).
94. GAO, *Intellectual Property Rights*, *supra* note 6; *see also* 5 INSIDE U.S. TRADE at

III. Bilateral Trade Negotiations

Since the early 1980s, the USTR has engaged in bilateral trade negotiations with Asian countries, such as Korea, Taiwan, Singapore, as well as Latin American countries, such as Mexico and Brazil. Many United States companies have become involved in the negotiations by providing information to the USTR about countries with intellectual property problems and participating in consultations with the countries as part of the U.S. delegation.

In 1984, the International Trade Administration of the Department of Commerce, in conjunction with the Patent and Trademark Office, identified those countries causing the most significant problems for United States firms.[95] The strongest focus has been on South Korea, Singapore, and Taiwan in Asia; and Brazil and Mexico, in the Americas. In addition, the U.S. has encouraged developing countries, such as Indonesia, Malaysia, and Thailand, to adopt effective intellectual property laws before counterfeiting becomes significant in their countries.[96] Also, there have been bilateral negotiations with developed countries, such as Canada and Japan. The next section will focus on the primary countries that have been affected by bilateral negotiations.

A. *Negotiations with Individual Countries*

1. *Canada*

The U.S. and Canada had consulted for several years regarding the provision of the Canadian patent law which allows the granting of compulsory licensing for pharmaceutical patents and the payment of an artificially low royalty of four percent. Because most Canadian

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1-2 (Nov. 27, 1987). It was reported that Mexico lost more than $5 million in GSP benefits because it refused to change its process patent laws in accordance with the timetable proposed by the United States. *Administration, Congress Can Work Together on Bill to Protect U.S. Rights, Official Says*, 4 Int'l Trade Rep. (BNA) 79-80 (Jan. 21, 1987) (Statement of Harvey D. Bale, Jr., Assistant U.S. Trade Representative for Trade Policy).

The removal of Taiwan, Hong Kong, South Korea, and Singapore from duty-free treatment under GSP because of their competitiveness eliminates the use GSP lever with these countries. *President Reagan Removes Four Pacific Rim Countries From GSP for Economic Reasons*; 5 Int'l Trade Rep. (BNA) 132 (Feb. 3, 1988).

95. The countries identified as causing the most significant problems were Brazil, India, Indonesia, Korea, Malaysia, Mexico, the Philippines, Singapore, Taiwan and Thailand. GAO *Intellectual Property Rights*, *supra* note 6.

96. *Id.* at 40-45.

pharmaceutical patent owners are U.S. companies, the U.S. was concerned about the compulsory licensing law. In 1983, the Canadian government stated that it would change the law.[97] After delays caused by a change in the Canadian government and a stormy passage through Parliament, Bill C-22[98] was passed and given Royal Assent. The new patent law grants improved protection to owners of drug product patents or process patents. Under the Canadian law, these patent owners are exempt from the compulsory licensing statute for:

> (a) ten years against *importation* of the patented medicine or the medicine made by the process patent for sale for consumption in Canada; and
>
> (b) seven years against *manufacture* of the patented medicine or the medicine made by the process patent for consumption in Canada.[99]

Depending on the dates of issue of any compulsory license or Notice of Compliance (NOC), Canadian law grants a more limited exemption against importation than it does for manufacturing of medicines if the first NOC was issued prior to June 27, 1986. There are no exemptions which would prohibit importation into Canada for subsequent exportation, except for medicines invented and developed in Canada. The bill also creates a Patent Medicine Price Review Board and empowers it to obtain information on costs and prices from patentees in order to monitor pharmaceutical prices.

2. *Indonesia*

Indonesia's intellectual property protection system is reported to be minimal and enforcement of existing laws inadequate. However, there have been some recent hopeful signs. Following President Reagan's visit to Indonesia in May 1986, Indonesia's President established a commission to examine intellectual property questions. A new copyright law was enacted and a draft patent law is under consideration.[100]

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97. *Operation of the Trade Agreements Program, 38th Report 1986*, USITC Pub. 1995, at 4-20 (July 1987) [hereinafter OTA 38th Report].

98. CANADIAN BILL No. C-22, *An Act to Amend the Patent Act and to Provide for Certain Matters in Relation Thereto* Ch. 41, (1987), 10 CAN. GAZ. Part III, 1175-1210 (No. 6, Jan. 26, 1988).

99. Bill C-22. The seven and ten year periods are measured from the date of issue (by the Canadian Government's Health Protection Branch) of the first notice of compliance permitting sale of the medicine in Canada, and not from the date of the issuance of the patent.

100. Address of Donald J. Quigg, Commissioner of Patents and Trademarks, before the American Bar Association (August 25, 1988), 36 Pat. Trademark & Copyright J. (BNA) 442 (1988) [hereinafter Quigg Address].

3. *Japan*

In 1983, legislation was being considered by the Japanese government which would have eliminated copyright protection for computer software.[101] Instead, software would have been protected by a *sui generis* law that would have reduced the term of protection from a 50 year term to two 15 year terms.[102] More significantly, from the standpoint of the U.S. computer software industry, the law would have required compulsory licensing of software. Strong international opposition, as well as internal opposition in Japan, led to the abandonment of the proposal.[103]

A current dispute concerning Japan is whether its patent system has a discriminatory effect against United States and other foreign applicants for Japanese patents. The specific complaints include: (a) inadequate separation between the Japanese Patent Office and the Ministry of International Trade and Industry; (b) inadequate protection of trade secrets; (c) long delays in obtaining patents; and (d) publication of applications after 18 months with a resultant "flooding" of applications with similar claims.[104] A U.S.-Japanese working group was established to consider steps to resolve significant differences between the U.S. and Japanese patent systems.[105] In a recent conference between the United States and Japan, several specific aspects of each country's patent laws were the target of negotiations.[106]

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101. OTA 35th Report, *supra* note 35, at 269.
102. OTA 36th Report, *supra* note 35, at 147.
103. *Id.*
104. 134 CONG. REC. S9909 (daily ed. July 26, 1988).
105. Quigg Address, *supra* note 100.
106. Wall St. J., Aug. 26, 1988, at 8, cols. 5-6. The United States demanded that Japan should:

> (1) adopt a longer grace period for an inventor to file for a patent after he discloses his invention;
> (2) be more flexible with foreign language applications;
> (3) liberalize rules for amending applications to widen protection from frivolous challengers, and
> (4) adopt U.S.-style techniques for gathering facts in patent litigation to provide quicker court relief.

The Japanese counter that their six month grace period is already longer than the European grace period and that its existing provisions for amendments are broader than in the U.S. The Japanese also complain that the new U.S. trade law provides too short a time for the U.S. International Trade Commission to reach a tentative decision on complaints of foreign violations of U.S. patents. *Id.*

4. *Mexico*

The United States has been negotiating with Mexico regarding the limited protection provided by Mexican patent laws.[107] Mexico's 1976 Law on Inventions and Trademarks (the Law) provides for ten-year, nonrenewable protection for patented goods. However, the Law denies patent protection to pharmaceuticals, chemicals, foods, beverages, metal alloys, nuclear devices, pollution control devices, and plant and animal varieties. In response to U.S. pressure, a bill was proposed to extend patent protection. Pharmaceuticals, agricultural chemicals, and biotechnical processes and alloys, however, would remain unpatentable.[108]

The U.S. entered into a U.S.-Mexican bilateral commercial framework agreement on November 6, 1987.[109] The agreement creates a consultative mechanism for resolving disputes between the countries on trade and investment matters. Among the topics listed as subject to bilateral negotiations are those involving technology transfer and intellectual property.[110]

5. *Singapore*

A U.S. joint government/industry delegation visited Singapore in 1984 and initiated discussions on the need to protect copyrights since Singapore's copyright law offered little protection to foreign companies. Singapore was known at that time as the tape piracy capital of the world[111] with an estimated production of seventy million counterfeit tapes per year. In August 1985, a U.S. delegation returned to Singapore to review a draft copyright law[112] to suggest improvements to the draft law. The Singapore Parliament passed the law in February 1987. In connection with the GSP annual review procedure, Singapore assured the United States that U.S. companies holding

107. *US and Mexico Sign Bilateral Framework on Trade, Investment, Dispute Resolution*, 4 Int'l Trade Rep. (BNA) No.44, at 1378 (Nov. 11, 1987).
108. OTA 38th Report, *supra* note 97, at 4-37.
109. *U.S.-Mexico Bilateral Framework Agreement on Trade and Investment*, 4 Int'l Trade Rep. (BNA) No. 44, at 1410-11 (Nov. 11, 1987).
110. *Id.* at 1411.
111. SENATE COMM. ON THE JUDICIARY, OVERSIGHT ON INTERNATIONAL COPYRIGHTS: HEARINGS BEFORE THE SUBCOMM. ON PATENTS, COPYRIGHTS AND TRADEMARKS, S. HRG. 1183, 98th Cong., 2d Sess. 1 (1984).
112. GAO, *Intellectual Property Rights*, *supra* note 6, at 52.

new copyrights would be protected by a bilateral agreement with the United States.[113]

6. *Taiwan*

Counterfeiting has been a major bilateral issue for the United States and Taiwan since at least the early 1980s.[114] In 1982, an anticounterfeiting committee was established in Taiwan to collect information on counterfeiting and to facilitate counterfeiting investigations. This led to an amendment[115] of the trademark law in January 1983, which provided for more severe penalties, more effective enforcement, and greater protection for foreign trademark holders.[116]

The first formal consultation between the U.S. and Taiwan regarding intellectual property and unfair competition issues occurred in March 1983. Representatives of United States companies were part of a delegation to Taiwan. The delegation raised individual problems that they were experiencing. The pressure from the U.S. and other governments, combined with widespread publicity of Taiwan as a major source of counterfeit goods, led to some changes in 1984.[117]

Consultations on intellectual property continued in 1984. Working groups on patent protection for chemicals, copyright issues, and unfair trade practices were established. In 1984, the Taiwanese government established another anticounterfeiting committee to investigate trademark counterfeiting, while the private sector organized a National Anticounterfeiting Committee to increase public awareness about the need to combat counterfeiting.[118]

In July 1985, Taiwan passed a copyright law that not only increased penalties on copyright infringement, but also extended protection to computer software.[119] Taiwan also extended patent protection to

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113. *Id.*

114. OTA 35th Report, *supra* note 35, at 45-6, 316-7.

115. *Id.* at 46.

116. For example, foreign owners whose famous trademarks (*i.e*, worldwide, well-known trademarks) are registered in a country with which Taiwan has a reciprocal arrangement, may bring criminal actions in Taiwan even though their trademarks are not formally registered in Taiwan. Special courts were created to handle trademark and patent cases. Also, a prosecutor's seminar on criminal investigations highlighted the importance of addressing counterfeiting problems and to allow prosecutors to exchange views on trademark and patent cases. Foreign Product Counterfeiting, *supra* note 7, at 46-47.

117. In 1984 Taiwan was identified by the ITC as the world's largest single source of counterfeit goods. *Id.* at xiv.

118. OTA 37th Report, *supra* note 77, at 192.

119. GAO, *Intellectual Property Rights*, *supra* note 6, at 51.

foreign chemical and pharmaceutical products. Another important development occurred in November 1985, when Taiwan dropped the requirement that foreigners must register their trademarks in order to file suit while Taiwanese nationals did not need to do so.[120]

Further progress in protecting intellectual property occurred in 1986. Copyright and trademark laws were revised to provide increased penalties for infringement. Foreign firms were given greater access to Taiwanese courts. Also, amendments to patent laws and the establishment of an unfair competition law were proposed.[121]

7. *Thailand*

There have been bilateral negotiations with Thailand. Legislation has been drafted that would provide improved protection for trademarks. However, legislation to protect copyrights has not been enacted due to severe political problems. Also, extensive discussions concerning the protection of pharmaceuticals resulted from the filing of a petition to withdraw GSP benefits filed by the Pharmaceutical Manufacturers Association.[122]

B. *The Semiconductor Chip Protection Act of 1984*[123]

The Semiconductor Chip Protection Act (Chip Act),[124] protects the design of computer chips by providing exclusive rights for ten years for the mask works from which the chips are made.[125] The Chip Act is an unusual example of how the enactment of a law providing protection to a new form of intellectual property in the United States led to similar statutes being enacted in other countries. The U.S. was the first country to enact a statute specifically protecting mask works. Congress was concerned that foreign companies lacking protection for chip designs in their own countries would be protected under the U.S. Chip Act, but that U.S. chip companies would be unable to get reciprocal protection in the foreign countries. Consequently,

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120. OTA 37th Report, *supra* note 77, at 192.

121. OTA 38th Report, *supra* note 97, at 4-40. To date, the proposals remain under consideration.

122. Quigg Address, *supra* note 100.

123. 17 U.S.C. § 901-914 (Law. Co-op. 1978 & Supp. 1988). For a comprehensive analysis of the Chip Act, see D. Wilson and J. LaBarre, *The Semiconductor Protection Act of 1984: A Preliminary Analysis*, 67 J. PAT. OFF. SOC'Y 57 (1985).

124. *Id.*

125. Mask works are defined as a series of related images, however fixed or encoded, that represent the three-dimensional pattern in the layers of a semiconductor chip. 17 U.S.C.S. § 901(a)(2) (Law. Co-op. 1978 & Supp. 1988).

Congress included unique provisions in the Chip Act to foster international development of chip protection. Section 902 of the Chip Act provides that foreign mask works may become eligible for protection in the U.S. under three conditions: (1) if the mask work is first commercially exploited in the U.S.; (2) if the foreign company manufacturing the mask work is located in a country that is a party to a treaty which protects mask works and the U.S. is also a party; and (3) the foreign work is encompassed by a Presidential proclamation.[126]

The Chip Act also provides that foreign nationals may obtain interim protection if their countries are making good faith efforts and reasonable progress toward reciprocal protection of mask works owned by U.S. nationals.[127] Section 914 also grants the Secretary of Commerce authority to grant coverage to foreign nationals if progress is being made toward reciprocal treatment and the foreign nationals are not engaging in misappropriation of U.S. mask works.[128] Thus, the Chip Act includes provisions that are, in effect, a cross-weave of protections and a platform for bilateral negotiations.

In 1985, interim protection was granted to nationals of Australia, Canada, Japan, the Netherlands, Sweden, the United Kingdom, and the member states of the European Community. The interim protection was granted either on the basis of plans to enact legislation (e.g., members of the European Community, Japan, and Sweden), or on the basis of representations that their existing copyright laws cover chip designs (e.g., Australia and the United Kingdom).[129] Pursuant to Section 914 of the Chip Act, the Commissioner of the Patent and Trademark Office (Commissioner), in consultation with the Register of Copyrights,[130] recommended to Congress in November 1986, that the authority to grant interim protection should be extended for three years. The recommendation was made in anticipation that elections might delay some European countries from enacting chip laws by November 8, 1987, the original expiration date. Based

126. 17 U.S.C.S. § 902(a)(1) (Law. Co-op. 1978 & Supp. 1988). The President may issue such a proclamation upon a finding that the foreign government extends protection to U.S. companies on substantially the same basis as it provides protection to its own nationals. 17 U.S.C.S. § 902(a)(2) (Law. Co-op. 1978 & Supp. 1988). The Copyright Office recently issued a final rule on the procedures it will follow for evaluation of requests by foreign governments for the issuance of Presidential proclamations granting protection in the U.S. to mask works of foreign origin. 53 Fed. Reg. 24,444 (1988).

127. 17 U.S.C.S. § 914(a) (Law. Co-op. 1978 & Supp. 1988).

128. 17 U.S.C.S. § 914(a) (Law. Co-op. 1978 & Supp. 1988).

129. 53 Fed. Reg. 16,308-11 (1988).

130. 17 U.S.C.S. § 914(f)(2) (Law. Co-op. 1982 & Supp. III 1985).

on that recommendation, Congress extended the authority of the Secretary of Commerce to provide interim protection until July 1, 1991.[131] The purpose of the extension was to provide a continued incentive for foreign nations to move expeditiously to enact chip protection legislation, and to lay a sound basis for the development of a new multilateral treaty under the auspices of the World Intellectual Property Organization (WIPO)[132] or another appropriate organization.[133]

Interim protection was extended under the new statute because substantial progress had been made in all countries that had been subject to interim protection orders. In fact, seven countries had enacted statutes providing for the protection of U.S. chip designs to the same degree as their domestic chip designs. The remaining countries were found to be making good faith efforts toward the enactment of legislation and were also actively supporting the work of WIPO in developing a new multilateral agreement which would establish international protection for chip designs.[134] Thus, the Chip Act has achieved its objective of encouraging foreign governments to enact protective legislation, and to work toward a treaty which would protect chip designs.

C. *General Agreement on Tariff and Trade*

The United States is also attempting to improve intellectual property protection by utilizing the General Agreement on Tariff and Trade (GATT),[135] a multilateral agreement which sets general rules of conduct for trade between contracting parties. Under the auspices of GATT, there have been seven rounds of negotiations which have resulted in a major reduction of tariff rates. During the 1979 Tokyo round of negotiations, the United States, with assistance from other developed countries, prepared a draft of an anticounterfeiting code designed to discourage the sale of counterfeit products. While the draft was never officially submitted for consideration, work continued on the Code. Pursuant to the 1982 Ministerial Declaration, GATT continued to explore the propriety of GATT action to combat coun-

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131. Pub. L. No. 100-159, § 2, 101 Stat. 899 (Nov. 8, 1987).
132. For discussion of WIPO, *see infra* the text accompanying notes 137-143.
133. H.R. Rep. No. 388, 100th Cong., 1st Sess. 304 (1987).
134. 53 Fed. Reg. 16,308, 16,311 (1988).
135. General Agreement on Tariff and Trade, 61 Stat. (5), (6), T.I.A.S. No. 1700, 55 U.N.T.S. 194 (1948).

terfeit goods. During 1985, a group of experts from the contracting parties discussed the Code and considered the possibility of broadening later GATT discussions to include infringement of other intellectual property rights. An Administration official stated that an agreement in principle had been reached with other developed countries. Implementation of the Code, however, was prevented by the resistance of developing countries.[136]

The Ministerial Declaration of the eighth round (the 1986 Uruguay Round) stated the following objectives concerning intellectual property issues:

> 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.
>
> Negotiations shall aim to develop a multilateral framework of principles, rules, and disciplines dealing with international trade in counterfeit goods, taking into account work already undertaken in the GATT.
>
> These negotiations shall be without prejudice to other complementary initiatives that may be taken in the World Intellectual Property Organization and elsewhere to deal with these matters.[137]

The U.S. hopes to convince other contracting parties that GATT codes are necessary because existing treaties have proven inadequate to prevent counterfeiting and piracy, and that there is presently no enforcement mechanism or dispute settlement provision. While the U.S. and other industrialized countries have favored having intellectual property issues encompassed by GATT, some developing countries have opposed that approach. Instead, they favor dealing with intellectual property issues in the WIPO, a specialized agency of the United Nations which administers the major intellectual property treaties. In recent years, however, some developing countries have opposed efforts within WIPO to strengthen international intellectual property standards. Instead, these countries have attempted to weaken existing standards.[138]

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136. GAO, *Intellectual Property Rights*, *supra* note 6, at 35-38.

137. *GATT Launches Uruguay Round as Consensus Reached on Services, Agricultural Trade*, 3 Int'l Trade Rep. (BNA) No. 38, 1150 (Sept. 24, 1986).

138. GAO, *Intellectual Property Rights*, *supra* note 6, at 25.

On October 28, 1987, the United States extended a framework proposal on intellectual property to GATT signatories. The framework would require GATT signatories to enact intellectual property laws that meet agreed-upon standards. The suggested norms are: (1) patent availability for all new inventions with exclusive rights for twenty years from the date that patent protection is sought; (2) registrability of trademarks and enforced protection of registered trademarks; (3) copyright protection for all forms of creative expression, including newer forms such as computer programs, and data bases for the life of the author plus 50 years; and (4) trade secrets provisions broadly defined to include undisclosed valuable business, commercial, technical, or other proprietary nature, with GATT signatories agreeing not to disclose technical secrets submitted to government officials as a requirement to do business; and (5) protection for the original layout design of semiconductor chips.[139]

To implement the above norms, the U.S. proposed consultative and dispute settlement mechanisms and enforcement measures to be enacted in the signatory countries. The EEC and Japan also offered intellectual property proposals for consideration in the Uruguay Round. Thus, these three major entities recognized that intellectual property plays a key role in world trade.[140] In contrast, third world countries have argued that WIPO, rather than GATT, should be the forum for discussion on intellectual property issues.[141] In fact, developing countries reportedly contend that the United States proposals go beyond the mandate of the negotiating group.[142] They argue that the declaration which began the Uruguay Round allows only negotiations on preventing trade in counterfeit goods.[143]

IV. Conclusion

The United States has taken an increasingly active and creative role in improving intellectual property rights in foreign countries. The 1988 Trade Act continues the pattern of pursuing bilateral and multilateral means to improve foreign intellectual property laws. While the United States program has a certain momentum, it is far

139. *E.C. Presents Detailed Proposal for GATT Coverage of Intellectual Property Rights*, 5 Int'l Trade Rep. (BNA) No. 28, 1012 (July 13, 1988).
140. *Cutting Brazil from GSP Wouldn't Jeopardize U.S. Leverage on Informatics, Yeutter Says*, 4 Int'l Trade Rep. (BNA) No. 45, 1427 (Nov. 4, 1987).
141. *Id.*
142. 5 Inside U.S. Trade 16 (July 29, 1988).
143. 5 Inside U.S. Trade 1 (July 22, 1988) (Special Report).

from clear that it will continue to be successful. Brazil's recent threat to obtain redress through GATT for U.S.-threatened retaliation may represent a serious challenge to the United States. Moreover, the most serious intellectual property problems in some countries involve enforcement issues; for example, in South Korea, enforcement issues rather than the adequacy of the protection of intellectual property may be more difficult to resolve. Similarly, there is strong resistance from some less developed countries to adopting the GATT approach to dealing with intellectual property issues. Thus, continued progress toward improving the adequacy and effectiveness of foreign intellectual property laws will require sustained effort by the United States. The 1988 Trade Act requirement that the USTR take a systematic approach towards evaluating and influencing foreign intellectual property laws may prove to be a good mechanism for keeping United States policy on a steady course.