THE CHANGED FACE OF THE INTERNATIONAL PATENT SYSTEM

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I. INTRODUCTION

The traditional international norms concerning the patent system are embodied in the Paris Convention on the Protection of Industrial Property. The Paris Convention was constituted by industrialized countries in the latter half of the nineteenth century as an instrument to secure the international protection of industrial property. The national treatment principle embodied in the Paris Convention gave considerable leeway to member states to shape their domestic patent system. Matters concerning substantive standards and enforcement procedures were reserved to the internal legal systems of individual states who sought to shape such matters pursuant to their national policies. However, while the national treatment principle gave considerable discretion to the states, the Convention's primary purpose was to protect the rights of holders of industrial property. Thus, it contained provisions which recognized the right of the patent holder to import the patented products and the principle of interdependence of patents and limited the rights of members of the Union to subject the patent holder to compulsory licensing.

In the 1960s, tensions arose within the international patent system. These tensions reflected changes in the world order as more developing states, newly emerging from colonization, became part of the international patent system. As part of their broader demand for a restructuring of the international economic order to

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aid their development, the developing countries demanded that the international patent system be revised to meet their particular developmental needs. The developing countries contended that the international patent system as embodied in the Paris Convention failed to take into account their peculiar developmental needs. Foremost in their complaint against the Paris Convention was that it did not only fail to facilitate technology transfer but also impeded it.

However, despite the tensions within the international patent system, no changes were made until 1994 with the signing of the Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods in Marrakesh, Morrocco. The protection of intellectual property rights which hitherto has been driven by internal domestic policy considerations is now being supplanted by internationally established uniform standards.

This paper shall attempt to trace this development in the international patent system. The study of the developments in the international patent system is also an instructive study in international law. It illustrates how international law is made. The study will explore the dynamics between the primary actors in international law, namely the industrialized countries and developing countries, regarding the international patent system. It will also look at the role of non-traditional actors, i.e., multinational corporations, in shaping international law. In exploring these issues, the paper shall first discuss the nature of domestic patent systems and the Paris Convention for the Protection of Industrial Property. The paper shall then explore the tensions in the international patent system resulting from the conflict between the developing countries and the industrialized countries regarding the international patent sytem. It shall then discuss the factors which gave rise to the importance of technology and the eventual linkage of intellectual property rights to trade. The paper shall dissect the interests and issues involved in this change. Thereafter, the paper will pose policy considerations regarding the international patent system.

II. TRADITIONAL INTERNATIONAL PATENT SYSTEM

A. Domestic Patent Laws

State regulation of intellectual property rights is required by the very nature of intellectual property. Intellectual property rights, unlike other property rights, are intangible and incapable of complete appropriation.[1] Such characteristic provides the basic economic rationale for government intervention in the form of state grant of intellectual property rights to the producers of new knowledge.[2] In recognizing intellectual property rights, such as patents, the state defines the nature, scope and extent of such rights. In the course of defining intellectual property rights, societal interests and policies influence its content especially in the light of the conflicting interests inherent in the grant of intellectual property rights.

Inherent in the domestic patent system are two conflicting interests: the interests of the inventors in exploiting the fruits of their efforts and the interests of the public in having access to these technological advancements. The domestic patent system has sought to accomodate and balance these interests. The domestic patent system has two traditionally accepted purposes: to provide incentives to inventors to continue inventing products of social value and to provide a system for the disclosure of technological advances.[3]

A system of domestic patent protection recognizes the value of inventions and technological advancements to society. A domestic patent system seeks to encourage the creation of more inventions by providing an incentive to inventors in the form of a temporary monopoly on the right to use the patented invention. In

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[1] Carlos Alberto Primo Braga, *The Economics of Intellectual Property Rights and the GATT: A View From the South*, 22 Vand. J. Transnat'l L. 243, 243-244 (1989).

[2] *Id.* at 244.

[3] *Id.* at 254.

order to determine the state of technological and scientific development, the patent system also requires disclosure of inventions. However, the grant of patents necessarily limits the availability of the patented products because it vests upon the holder a right to exclude others from the use thereof. By conferring an exclusive right to the patent holder, competition is stifled and access to products is restricted. Thus, states have an interest in regulating the rights of patent holders. States have struggled to balance the rights of intellectual property holders and the public good primarily by regulating such rights through the patent system, e.g., imposing requirements for patentability, limiting the duration of such rights, and through anti-trust or competition laws.

Domestic patent systems were first institutionalized in western countries. The first patent system was established in the fourteenth century in Florence and Venice.[4] Even then, the patent systems already expressed the underlying rationale of the contemporary patent system: balancing the interests of the inventor and the public interests.[5]

B. Paris Convention for the Protection of Industrial Property

The traditional international norms governing patents are embodied in the Paris Convention for the Protection of Industrial Property ("Paris Convention"). The Paris Convention was concluded in 1883 and was revised six times, the last of which was held in 1967 in Stockholm. The Paris Convention was created in the late nineteenth century when it was recognized that patent protection limited by national boundaries was an obstacle to the expansion of international economic relations.[6] National patent laws gave no protection to foreign inventors and acted like tariffs in

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[4] Paul S. Haar, *Revision of the Paris Convention: A Realignment of Private and Public Interests in the International Patent System*, 8 Brooklyn J. Int'l L. 77, 79 (1982).

[5] *Id.*

[6] Ulf Anderfelt, International Patent-Legislation and Developing Countries 65 (Martinus Nijhoff 1971).

effectively shutting out foreign competition.[7] Such was deemed anathema to the trend in commercial policy towards freer trade.[8]

The Paris Union was constituted by a homogeneous group[9] of fairly industrialized countries[10]. The purpose of the original members of the Union was to consolidate and strengthen patent protection[11] by committing members of the Union to extend protection to nationals of other members of the Union. Thus, the Paris Convention was oriented towards greater protection of the rights of patent holders.

The national treatment principle is a central feature of the Paris Convention. Article 2 of the Paris Convention obliges member states to grant to nationals of other countries of the Union in relation to the protection of industrial property-without prejudice to the minimum rights provided for by the Convention-all the advantages that their respective laws now grant or will grant in the future to their own nationals.[12] National treatment requires each contracting state to treat nationals from other states as it does its own nationals concerning all national laws and procedures in the field of intellectual property protection.[13] Thus, the national treatment principle only enjoins discrimination but does not prescribe the standards of protection. Apart from the minimum rights contained in the Paris Convention, such as the right of

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[7] *Id.* at 71-72.

[8] *Id.* at 66.

[9] *Id.* at 93.

[10] The fourteen original members of the Union were Belgium, Brazil, Ecuador, France, Great Britain, Guatemala, Italy, the Netherlands, Portugal, El Salvador, Serbia, Spain, Switzerland and Tunisia. Ecuador, El Salvador and Guatemala subsequently left the Union while Denmark, Norway, Sweden, the Dominican Republic and the United States acceded to the Convention. See Anderfelt, supra note 6, at 70.

[11] *Id.* at 93.

[12] Hans Peter Kunz-Hallstein, *The United States Proposal for a GATT Agreement on Intellectual Property and the Paris Convention for the Protection of Industrial Property*, 22 Vand. J. Transn'l L. 265, 273 (1989).

[13] Frank Emmert, *Intellectual Property in the Uruguay Round-Negotiating Strategies of the Western Industrialized Countries*. 11 MICH. J. INT'L L. 1317, 1340 (1990).

priority[14], it is left to the internal legal systems of the contracting states to define the scope and breadth of patent protection. Under the national treatment principle, a contracting state may exclude certain fields of technology from patentability, fix the duration of the patents and limit patentability to the process of production and not as to the end product.[15] Consequently, the Paris Convention allowed member states great discretion to legislate intellectual property rights protection pursuant to its national policy.

The Paris Convention was previously administered by its own secretariat called the BIRPI. Subsequently, its administration was assigned to the World Intellectual Property Organization (WIPO). The WIPO was created by the WIPO Convention on July 14,1967 which came into force in 1970 and became a specialized agency of the United Nations in 1974.[16] The WIPO "encourages the conclusion of new international treaties and the modernization of national legislations; gives technical assistance to developing countries; it assembles and disseminates information;...and promotes other administrative cooperation among member states."[17] In addition to the Paris Convention, the WIPO centralizes the administration of all but a few of the multilateral international covenants on the protection of intellectual property.[18] The WIPO's supreme organ is the General Assembly which consists of States party to the Convention and which are members of the Union. Like the General Assembly of the United Nations, each

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[14]Article 4 of the Paris Convention provides that a national of a member of the Union who has filed an application for a patent, or for the registration of a utility model, or of an industrial design, in one of the countries of the Union shall enjoy a priority to apply for protection in any other countries of the Union before the expiration of twelve months. Any subsequent filing in any of the other countries of the Union before the expiration of twelve months shall not be invalidated by reason of acts accomplished in the interval, in particular, another filing, the publication or exploitation of the invention.

[15]Emmert, *supra* note 13, at 1340-1341.

[16]Stephen P.Ladas, Patents, Trademarks and Related Rights: National and International Protection 145 (Harvard University Press 1975).

[17] Emmert, *supra* note 13, at 1338.

[18] *Id.* at 1337-1338.

State has one vote in the WIPO General Assembly.[19]

III. TENSIONS WITHIN THE INTERNATIONAL PATENT SYSTEM: DEBATE OVER THE PURPOSES OF THE INTERNATIONAL PATENT SYSTEM.

In the 1960s, tensions within the international patent system came to fore. The tensions arose from the conflicting interests of the creators of technology based in the industrialized countries and the developing countries who were transferees of technology.

At this time, the complexion of the international patent system has changed. Since its inception, the membership in the Paris Convention changed from a fairly homogeneous group of industrialized countries into a disparate and heterogenous membership. Between 1883 and 1958, the membership of the Union increased from 11 to 47, and between 1958 to 1969, it expanded to 79.[20] Presently, it has 98 members. The increase in membership consisted almost completely of developing countries and countries identified with what was then called the socialist bloc.[21] The entry of these countries into the Union would have an impact on the activities of the Union and the development of the Convention.

Developing countries grew critical of the international patent system and began to advocate for a preferential treatment for developing countries as opposed to the uniform application of the national treatment principle. The demand for preferential treatment grew out of the broader demand of the developing countries for a new international economic order. Developing countries felt that the international free trade order fashioned after WW II did not address the peculiar developmental needs of the developing countries, newly emerging from colonial rule. Under the

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[19] Ladas, *supra* note 16, at 147.
[20] Anderfelt, *supra* note 6, at 92-93.
[21] *Id.* at 93.

new international economic order, the world economy will be restructured to enhance the competitive position of the developing countries[22] in order to promote their development. In view of the technological gap between the industrialized countries and the developing countries[23], developing countries' access to technology was deemed essential to development. Thus, the restructuring of the mechanisms for technology transfer to enable developing nations to have access to technology was a central element of the new international economic order.[24]

The developing countries were concerned that the international patent system was no longer a domestic incentive and disclosure system but costly impediments to the international transfer of technology. It did not serve the purpose of providing incentives to domestic inventors to create inventions. Instead, ownership of patents in developing countries were increasingly held by foreign patentees. Nationals of developing countries held in their own countries no more than 1% of the world stock of patents, and in other countries, no more than about 2/3 of 1% of foreign-owned patents.[25]

Moreover, an overwhelming proportion of the foreign patentees were multinational corporations. In the latter half of the twentieth century, multinational corporations acquired a disproportionate share of the world's patents.[26] A substantial majority (84 percent) of the patents in developing countries are owned by foreigners, mainly multinational corporations of five developed market-economy countries, namely: United States, Germany, Switzerland, United Kingdom and France.[27] The

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[22] Martin Feinrider, *UNCTAD Transfer of Technology Code Negotiations: West and East against the Third World*, 30 Buffalo L. Rev. 753, 753 (1981).

[23] David M. Haug, *The International Transfer of Technology: Lessons that East Europe can Learn from the Failed Third World Experience*, 5 Harv. J. Law and Tec 209, 217 (1992).

[24] Feinrider, *supra* note 22, at 755.

[25] UNCTAD Report cited by A. Samuel Oddi, *The International Patent System and Third World Development: Reality or Myth?*, Duke L. J. 831, 844 (1987).

[26] Haar, *supra* note 4, at 85.

[27] UNCTAD Report cited by Oddi, *supra* note 25, at 843.

ownership of multinational corporations of a large number of the world's patents have serious ramifications on the transfer of technology. Since multinational corporations are the sources of the world's technology, most technology transfers take place through investment contracts with multinational corporations based in industrialized countries.[28] However, multinational corporations exploited their commanding control over most of the world's patents by using their patents as a device to maximize corporate profits.[29] This was achieved through the unique nature of global patent holdings and the minimization of competition through patent pooling or cross-licensing[30]. A global holding of the patent serves to prevent potential competition in all markets[31] whereas patent pooling or cross-licensing is a method whereby patent holders pool together their patents for competitive products and through explicit agreements reshuffle their monopoly privileges in order to divide the world markets between themselves and avoid competition.[32] The patent system also impedes technology transfer because multinational corporations exploit their monopoly position through the imposition in licensing agreements of conditions which increased the costs of the transfer. Such impositions are collectively referred to restrictive business practices. Restrictive business practices were found in almost all the technology transfer agreements studied by the United Nations Conference on Technology and Development (UNCTAD).[33] Such practices include grant back provisions, exclusive dealing, restrictions on personnel, price fixing, exclusive sales, post-expiration sales, tying arrangements and other use restrictions.[34] These practices had the effect of impeding the transfer of technology to developing countries. Developing countries have concluded that such practices

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[28] Haug, *supra* note 23, at 212.

[29] Haar, *supra* note 4, at 77.

[30] *Id.* at 85-86.

[31] *Id.* at 86.

[32]Haar citing Vaitsos, *Patents Revisited: Their Function in Developing Countries*, 9 J. Development Studies 71, 76 (1972).

[33]Guo Qingjiang, *Restrictive Business Practices Bar Technology Flow to Developing Countries*, Colum. Bus. L. Rev. 117, 118 (1987).

[34] *Id.* at 118-119.

"increases the technology buyer's production costs, obliges him to acquire obsolete or costly goods at expensive prices; and prohibits or limits his exports; ... making the technology less valuable than it would be without such restrictions."[35] Moreover, these patents have been underutilized in the patent granting states through non-working or insufficient working.

Thus, to address the abuses by multinational corporations, countries promulgated within their domestic legal systems remedial mechanisms to protect their interests: the exclusion of certain categories of basic products from patentability, e.g., medicines[36] and food products; compulsory licensing[37]; working requirement[38]; forfeiture of patents; reduced life of patents for

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[35] *Id.* at 120.

[36] The following developing countries did not protect pharmaceuticals: Argentina, Bangladesh, Bolivia, Brazil, Chile, Columbia, Ecuador, Egypt, Ghana, Guatemala, Honduras, India, Iran, Iraq, Kampuchea, Kuwait, Laos, Lebanon, Libya, Mali, Mexico, Mongolia, Morocco, Pakistan, Paraguay, Peru, Portugal, South Korea, Syria, Taiwan, Tangier Zone, Thailand, Tunicia, Turkey, Uruguay, and Venezuela. The following developed countries did not protect pharmaceuticals: Canada, Finland, Greece, Monaco, Norway, the former USSR and the former East Germany. 1974 UNCTAD Report cited by Oddi, *supra note 25.*

[37] In contrast to the more common voluntary licenses, compulsory licenses are imposed by law or by court decisions on a patentee for certain reasons or for certain types of inventions. By forcing a patentee to license his invention, a nation can ensure that the patent does not exist on its books just to manipulate or otherwise restrict the development and marketing of the invention by one of the country's own citizens. The primary effect of compulsory licensing is to ensure that the countries can benefit from the patents they issue. See Willard Alonzo Stanback, *International Intellectual Property Protection: An Integrated Solution to the Inadequate Protection Problem*, 29 Va. J. Int'l L. 517, 538 (1989). Article 5A, paragraph 2 of the Paris Convention allows members of the Union to grant compulsory licenses subject to the time limitations contained in par. 4, i.e., four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last.

[38] The working requirement requires the intellectual property patent holder to use the patented idea for the benefit of the country in which it is patented or risk losing the protection of the patent. When the patent holder loses his rights under this doctrine, the protected information or invention is dedicated to the public and anyone is free to use it without the owner's permission. See *id.* at 538.

products; right of the state to use patents; exclusivity of license[39]; and exclusion of product patents, allowing only process patents. These remedial mechanisms sought to ensure greater use of the patents in the patent granting country, condition the duration of patent to its exploitation and enable the granting state to deal with the abuses of the patent monopoly.[40] These state reactions to patent abuses resulted in a shift from the treatment of patents as private property rights to privileges granted by a state which may be subject to greater regulation.[41]

In the international plane, developing countries began advocating for the unrestricted transfer of technology from industrialized countries to the developing countries and for the revision of the international patent system to further serve their economic and development needs. The developing countries argued that the Paris Convention no longer served the interests of the majority of the world community. It was antithetical to their economic development because it did not sufficiently represent their interests. The national treatment principle which called for the uniform application of domestic patent laws failed to recognize the disparities between industrialized countries and developing countries. Moreover, while the national treatment principle gave them leeway to design their domestic patent systems to further their developmental objectives, developing countries contended that the other rights established in favor of industrial property holders impeded technology transfer. Instead of facilitating technology transfer by according sufficient protection to the developing countries against patent abuse, the patent holder has

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[39] "An exclusive license excludes everyone, including the inventor, from exploiting the invention." This requirement is the most beneficial of the three doctrines to a country seeking to achieve total control of the technology in its jurisdiction. Some developing countries believe that "[e]xclusivity is necessary to guarantee the success of ..a new local industry." That is, they do not want to deter the development of a local industry by allowing a patent holder to exploit a patent that will effectively decrease the value and viability of the new domestic industry. See *Id.* at 539.

[40] Haar, *supra* note 4, at 84.

[41] *Id.*

been protected to the detriment of their social and economic interests.[42] They cited as an example, the Paris Convention provision which prohibited the forfeiture of patent on the ground of importation[43]. Such provision impedes the transfer of technology and results in the underutilization of patents because it allows patent holders to import the product instead of working it in the granting state. They also viewed the Paris Convention as an impediment to their attempts to remedy the abuses of foreign patent holders. They cite as examples the Paris Convention provisions on compulsory licensing and forfeiture which make the availability of such remedies too burdensome and time-consuming.[44] Under the Paris Convention, a patent may not be forfeited if the grant of compulsory license would be sufficient to prevent abuses of the patent.[45] If a compulsory license is issued, proceedings for revocation may be instituted only after the lapse of two years from the grant of the first license[46]; if compulsory licenses are applied for on the ground of failure to work or insufficient working, the application can only be filed after a lapse of four years from the date of filing of the patent application or three years from the date of the grant of patent, whichever period expires last; and a compulsory license may be refused if the patentee justifies his inaction.[47] Developing countries also cite the independence of patents[48] principle embodied in the Paris Convention as an impediment to their attempts to address patent abuses. A resulting problem of the independence of patents principle is that forfeiture, expiration or nullity of a patent in one member nation does not terminate the patent in another member nation.[49]

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[42]Regina A. Loughran, *The United States Position on Revising the Paris Convention: Quid Pro Quo or Denunciation*, 5 Fordham Int'l L. J. 411, 420 (1981).

[43]Article 5 (A), Paris Convention provides:"Importation by the patentee into the country where the patent has been granted of articles manufactured in any of the countries of the Union shall not entail forfeiture of the patent."

[44]Haar, *supra* note 4, at 90.

[45]Article 5(3), Paris Convention.

[46]Article 5 (3), Paris Convention.

[47]Article 5(4), Paris Convention.

[48] Article 4, Paris Convention.

[49] Loughran, *supra* note 42, at 427.

The industrialized countries, on the other hand, contended that the major purpose of the international patent system is not to facilitate technology transfer but the effective protection of industrial property.[50] Industrial property are deemed by the industrialized states as private rights, the protection of which they are primarily liable.[51] Thus, industrialized countries opposed the efforts by the developing countries to create preferential treatment, claiming that the national treatment principle is essential to the Convention.[52]

This is not to say that industrialized countries were content with the Paris Convention. The national treatment principle disfavored larger developed countries, such as the United States.[53] While the United States provides a broad scope of patent protection which could be availed of by nationals of other members of the Union, American nationals did not have the same benefit in other countries which provided a narrower scope of protection. Thus, the United States made a number of attempts to amend the principle of national treatment and replace it with the principle of reciprocity.[54] The reciprocity principle would enable the United States to discriminate in favor of nationals of other Union members which extended the same kind of protection to United States nationals. These efforts, however, failed. Moreover, industrialized countries were unhappy with the Paris Convention's lack of provisions for domestic enforcement and its inadequate dispute settlement procedures.

The industrialized countries also argued that contrary to the criticisms by developing countries, increased industrial property protection is not an impediment to development but an effective and powerful development tool for developing countries. Industrialized countries contended that stronger and more effective industrial property protection in developing countries would

[50] *Id.* at 437.
[51] *Id.* at 438.
[52] *Id.* at 425.
[53] Oddi, *supra* note 25, at 857.
[54] *Id.*

facilitate technology transfer, attract more foreign investments, encourage local research and development and provide greater incentives for local innovators to create technological goods. Thus, industrialized countries were emphasizing the traditional purposes of the patent system: an incentive for the production of goods with social value and a mechanism for the disclosure of inventions and technological advances. Such a system of incentives and disclosure were, argued the industrialized countries, essential preconditions to development and technological growth.

In March 1980, the member states of the Paris Convention and of the WIPO met in Geneva to hold the Conference to Revise the Paris Convention to discuss proposals for the revision of the Paris Convention. The revision conference was called for by an UNCTAD study on "the role of the patent system in the transfer of technology to developing countries" and was intended to adapt the Convention in particular to certain requests of the Group of the Developing Countries.[55]

The diametrically opposing positions of the western industrialized countries and the developing countries were played out in the 1980 Conference to Revise the Paris Convention. The western industrialized countries hoped to strengthen existing minimum standards of protection for patents and trademarks and to commit developing countries, which were now categorized as newly-industrialized countries (NICs) and least developing countries (LDCs), to improve their enforcement practices.[56] The NICs and the LDCs, on the other hand, sought a deviation from the national treatment principle under the Paris Convention by demanding for the preferential treatment of nationals of developing countries, e.g, longer period to avail of the right of priority and lower fees.[57] Moreover, they sought greater power to control the rights of patent holders. Thus, they sought for the imposition of

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[55] Kunz-Hallstein, *supra* note 12, at 77.

[56] Emmert, *supra* note 13, at 1343.

[57] Homer O. Blair, *Technology Transfer as an Issue in North/South Negotiations*, 14 Vand. J. Trans'l L. 301, 313 (1981).

the requirement of local working for patent holders, compulsory licenses for nonworking of patents, provision to declare that importation be not deemed as local working and the interdependence of patent rights.[58] Due to their diametrically opposing views, a consensus was not reached and the entire conference failed after five years of preparatory meetings and four diplomatic conference sessions.[59]

Thus, despite the increasing conflicts between the industrialized countries and the developing countries, the traditional international patent system represented by the domestic patent systems and the Paris Convention was in place until the winds of change began to blow in the 1980s.

IV. LINKAGE OF INTELLECTUAL PROPERTY RIGHTS PROTECTION TO TRADE WITHIN DOMESTIC SYSTEMS

A. Factors Which Led to the Linkage of Intellectual Property Rights to Trade.

In the 1980s, industrialized countries began to change their trade laws, linking intellectual property rights to trade by classifying "defective" intellectual property systems as a type of unfair trade practice.[60] The United States was the primary agent of this change. Through the use of trade sanctions, the United States sought to enforce a standard of intellectual property protection higher than that contained in the Paris Convention. Intellectual property and international trade which hitherto were relegated to distinct and separate spheres became intertwined. Several factors led to the intertwining of these two spheres.

At the height of the Cold War, the United States had a compelling interest in maintaining the economic stability of its allies and the free trade economic order established in the

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[58] *Id.* at 313.

[59] Emmert, *supra* note 13, at 1343.

[60] Braga, *supra* note 1, at 244.

aftermath of WW II to protect its sphere of influence from the encroachment of the USSR. Thus, trade was viewed as an indispensable instrument of foreign policy and national defense. However, with the demise of the Cold War, security considerations were no longer as pressing and the United States began to look towards the protection of its interests.

Within the United States political system, increasing political pressure was building up the momentum for increased protectionism as against traditional free trade norms. One of the compelling factors building up the forces of protectionism was the United States trade imbalances in international trade. At this time, the competition for market shares in the global market had intensified. The competitive advantage of the United States was being challenged by other western industrialized countries and by developing countries. Manufacturers in developing countries were increasingly able to penetrate distant markets for traditional industrial products[61], thus challenging the dominance of the United States and other industrialized countries. Staggering trade deficits into hundreds of billions of dollars was registered in the United States each year. With a national debt running in the trillions and a trade deficit in the billions, the United States government, specifically Congress, was compelled to redefine United States trade policy. The result was a move from trade as a tool of foreign policy to an end in itself. Moreover, pressure from United States businesses who were incidentally holders of industrial property, led to the use of trade sanctions as a tool to enforce greater intellectual property protection overseas.

The rising importance of trade in the new order was paralleled by the increasing significance of technology and other intellectual goods. The United States, faced with numerous competition for global market shares, maintained a competitive

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[61] J.H. Reichman, *The "TRIPS" Agreement and the Developing Countries*, UNCTAD Bulletin No. 23, Nov-Dec 1993, 8.

edge only in the area of high technology.[62] The United States has for many years been by far the world's largest exporter of disembodied technology (measured by the royalties from patent and knowledge licensing).[63] In the postwar era, the relative percentage of US exports with a high intellectual property content (for example books, chemicals, movies, records, electrical equipment and computers) has more than doubled to more than 25% of all US exports.[64] Royalties received by US industries from the licensing of intellectual property exceeded $8 billion per year, which is more than six times the amount paid to foreign firms.[65] Thus, the United States was forced to rely more heavily on its comparitive advantage in the production of intellectual goods than in the past.[66]

However, by the demise of the Cold War in the 1980s, competition in the production of technological goods had also intensified. Producers of technological goods could no longer rely on traditional factors such as lead time, reputation for quality and continuing technical improvements to maintain their foothold in the market.[67] With increasing effectiveness, other states developed the capability to reverse engineer products and to develop new ones through independent research efforts. The increased competition pressured established firms to develop technology that is a step ahead of its rivals.[68] Thus, firms invested heavily in research and development to attain new knowledge of products and processes in order to maintain profitability and market shares.[69] Since 1979,

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[62] Edward Slavko Yambrusic, Trade-Based Approaches to the Protection of Intellectual Property 8 (Oceana Publications, Inc. 1992).

[63] Francis W. Rushing and Carole Ganz Brown, Intellectual Property Rights In Science, Technology, and Economic Performance 218 (Westview Press, Inc. 1990).

[64] Robert W. Kastenmeier and David Beier, *International Trade and Intellectual Property: Promise, Risks, and Reality*, 22 Vanderbilt Journal of International Law 285, 286 (1989).

[65] *Id.* at 286.

[66] Reichman, *supra* note 61, at 8.

[67] *Id.*

[68] Rushing and Brown, *supra* note 63, at 211.

[69] *Id.* at 210.

research and development expenditure has grown much more rapidly than gross domestic product (GDP) in all major Organization for Economic Cooperation and Development (OECD) countries.[70] With the increased investment in research and development, development in technology has accelerated worldwide. The development in technology has led to shorter product life cycles.[71] Thus, firms had a shorter period to recoup their investments before their products became obsolete. Firms had a shorter period to maximize profits on a developed products. Moreover, the competitive advantage of being a first-comer in the market or by being technologically advanced became more difficult with the advent of more sophisticated copying techniques which facilitated increased imitation and reproduction.[72] When imitation is swift, being first in the market is not a major advantage.[73]

Moreover, new information based technologies, e.g., integrated circuit designs and computer programs, were developed that did not fall within any of the traditional categories of intellectual property rights. Such information based technologies were easily copied, appropriated and disseminated by unauthorized users. Consequently, there was great pressure to protect such technologies.

Thus, the significance of technology as an essential component of national wealth, the protection of which is indispensable to the protection of a country's competitiveness in the world market, led to the move for greater intellectual property protection. Greater protection of intellectual property rights would preserve the competitive edge of the United States and prevent its erosion. This was realized with the enactment of new trade laws, namely the Trade Act of 1984 and the Omnibus Trade and Competitiveness Act of 1988, which sought to increase the standards for intellectual property rights protection through the

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[70] *Id.* at 206.
[71] *Id.*
[72] *Id.*
[73] *Id.* at 211.

use of trade sanctions. These trade laws signalled the United States' departure from the traditional international norm of national treatment with its unilateral imposition upon other countries of its domestic standards for intellectual property protection.

B. United States Trade Laws: Bilateral Negotiations and Unilateral Trade Sanctions

The Trade and Tariff Act of 1984 (Trade Act of 1984) provided the first indication of the new United States policy concerning the protection of intellectual property rights[74] by providing the use of trade sanctions as an instrument for the enforcement of intellectual property rights protection.

The Trade Act of 1984 strengthened Section 301 of the Trade Act of 1974. Section 301 of the Trade Act of 1974 is the legislative mechanism by which private parties may invoke the intervention of the United States government against foreign trade practices that are deemed to unfairly limit the commerce of the United States.[75] Section 301 addressed itself to the enforcement of bilateral and multilateral agreements to which the United States was a party.[76] Section 301, however, allowed for remedies independent from those provided for by the particular agreements.[77] Specifically, Section 301 provided that the "President shall take all appropriate and feasible action within his power" in order to "enforce the right of the United States under any trade agreement" or to respond to any act, policy, or practice of a foreign country or instrumentality" which is inconsistent with the provisions of, or otherwise denies benefits to the United States under any trade agreement" or "is unjustifiable, unreasonable, or discriminatory and burdens or restricts U.S. commerce."[78] The

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[74] R. Michael Gadbaw, *Intellectual Property and International Trade: Merger or Marriage of Convenience?*, 22 Vand. J. Transn'l L. 223, 229 (1989).

[75] Yambrusic, *supra* note 62, at 29.

[76] *Id.*

[77] *Id.*

[78] *Id.* at 30-31.

Trade Act of 1984 brought the protection of intellectual property rights within the ambit of Section 301 actions by explicitly designating weak intellectual property protection as an appropriate basis for withdrawing concessions under the Generalized System of Preferences[79] (GSP) and increasing tariffs on goods imported from the offending country.[80] The law required the President to take into account the extent to which a country is providing adequate and effective means under its laws for foreign nationals to secure, exercise and enforce exclusive rights in intellectual property, including patents, trademarks and copyrights in whether to designate such country a beneficiary developing country eligible for the GSP program.[81] The law also made intellectual property protection explicitly actionable under Section 301 of the Trade Act of 1974 which allows the President to seek elimination of "unjustifiable or unreasonable" trade practices by taking action, including retaliation by restricting imports into the U.S. market.[82] The penalties for noncompliance with US requirements have included the withdrawal of Thailand's GSP privileges (resulting in a 5-10 percent import duty increase on $165 million worth of Thai exports) and imposition of 100 percent duties on $39 million worth of Brazil's exports.[83] These exports are not related to products or sectors in which infringement of intellectual property is alleged.[84]

The linkage between intellectual property and trade was further cemented with the passage of the Omnibus Trade and Competitiveness Act of 1988 (Omnibus Trade Act of 1988) which was signed into law by President Ronald Reagan on August 23,1988. The Omnibus Trade Act of 1988 mandated the protection

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[79] The GSP is a means by which the US and other developed countries may waive duties on certain imports from selected developing countries. Four countries,Korea, Mexico, Brazil and Thailand have been affected by this legislation. See Rushing and Brown, *supra* note 63, at 219.

[80] *Id.* at 219.

[81] 19 USCS 2462 (c) (5).

[82] Donald E. deKieffer, U.S. Trade Policy Regarding Intellectual Property Matters, International Trade and Intellectual Property 102-103 (Westview Press, Inc.1994).

[83] Rushing & Brown, *supra* note 63, at 224.

[84] *Id.*

of intellectual property rights as one of the principal priorities of the United States trade policy.[85] The enactment of the law followed years of legislative history involving various private and public interest group, both bodies of Congress, and the administration including one Presidential veto.[86] In seeking to ensure greater protection to US intellectual property rights, the Act had a three pronged strategy: unilateral trade sanctions, bilateral negotiations and the incorporation of intellectual property rights within the GATT framework.

The Omnibus Trade Act of 1988 signalled the change in policy from trade being a hand maiden of foreign policy to an end in itself with the transfer from the President to the United States Trade Representative (USTR) of the power to determine whether an act, policy or practice by a foreign country is actionable under Section 301.[87]

Under Section 301 of the Trade Act of 1974, the President had broad powers and absolute discretion to take action or to retaliate against an unjustifiable, unreasonable or discriminatory foreign act, policy or practice. There was a general perception by the legislators, however, that Presidents have been reluctant- because of the overriding national-foreign policy issues- to use Section 301 authority.[88] Thus,to remove trade from the shadow of foreign policy, the authority to determine whether an act, policy or practice by a foreign country is unjustifiable, unreasonable, or discriminatory was shifted from the President to the USTR. The President's power was reduced to the calibration of possible sanctions against an erring country after the USTR had made a determination. To ensure that the President will not utilize his executive prerogatives to encroach upon the USTR's new powers, the Omnibus Trade Act of 1988 curtailed the USTR's discretion by mandating specific actions, imposing designated timetables and

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[85] Gadbaw, *supra* note 74, at 223.
[86] Yambrusic, *supra* note 62, at 53.
[87] *Id.* at 56.
[88] *Id.*

requiring periodic reports to Congress.

Under the said Act, a regular 301 action may be initiated by a private party or *motu propio* by the USTR.[89] The Act grants unto the USTR two kinds of powers in bringing a regular 301 action: a mandatory authority and a discretionary authority. When the trade rights of the United States are involved, the USTR is mandatorily required to take action. Section 2411 provides that the USTR is mandatorily required to take action on a determination that (1) the rights of the United States under any trade agreement are being denied, or (2) an act, policy or practice of a foreign country violates, or is inconsistent with, the provisions of, or otherwise denies the benefits to the US under, any trade agreement, or is unjustifiable[90] and burdens or restricts United States commerce.[91] An act, policy or practice which denies the protection of intellectual property rights is deemed unjustifiable.[92] Once it is determined that the particular foreign act, policy or practice is actionable, the Omnibus Trade Act requires the USTR to mandatorily initiate investigation pursuant to the procedure enunciated in Section 2412 and ultimately, to take an appropriate retaliatory action based on that investigation, subject, however, to the direction of the President, if any.[93] When the international legal rights of the United States are not involved, the USTR is given discretionary power to take action against another country upon a determination that it does not adequately and effectively protect US intellectual property rights. Section 2411(b)(1) provides that the USTR may take discretionary action if it determines that an act, policy or practice of a foreign country is unreasonable or discriminatory and burdens or restricts United States commerce. An unreasonable act, policy or practice is defined as an act, policy, or practice, while not necessarily in violation of, or inconsistent with, the international legal rights of

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[89] 19 USCS 2411.

[90] Section 301 (19 U.S.C. 2411) defines an act, policy, or practice to be unjustifiable if the act, policy, or practice is in violation of, or inconsistent with, the international legal rights of the United States.

[91] 19 U.S.C. 2411 (a) (1).

[92] 19 U.S.C. 2411 (d) (4)(B).

[93] Yambrusic, *supra* at 62, 56-57.

the United States, is otherwise unfair or unreasonable.[94] The Act also makes it clear that acts, policies or practices which denies the provision of adequate and effective protection of intellectual property rights is unreasonable and thus, actionable.[95] This means that even if a country complies with its international legal obligations to the United States, it may be subject to 301 actions should the USTR deem that its intellectual property rights protection is inadequate or ineffective. Thus, there is no requirement that the offending country be in breach of any agreement with the United States or be acting inconsistently with the international intellectual property regime.[96] This enables the United States to unilaterally impose its standards on other countries since the determination of whether effective protection is being provided is made primarily on the basis of whether the offending country's intellectual property laws meet the standards of the United States.[97]

The Omnibus Trade Act enumerates the form of retaliation available to the USTR, to wit: (1) the suspension, withdrawal, or prevention of the application of, benefits of trade concessions to carry out a trade agreement with the foreign country; or (2) the imposition of duties or other import restrictions on the goods of, and, notwithstanding any provision of law, fees or restrictions on the services of, such foreign country for such time as the Trade Representative determines appropriate; or (3) entering into agreements with such foreign country that commit such foreign country to eliminate or phase out the act, policy, or practice complained of, or the elimination of the burden or restriction on United States commerce, or providing the US with compensatory trade benefits.[98] The form of retaliation is left to the discretion of

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[94] 19 USCS 2411 (1994) (d) (3) (A).

[95] Section 2411(d)(3) (B) (i) ((II).

[96] Ted L. McDorman, Unilateralism (Section 301) to Multilateralism (GATT): Settlement of International Intellectual Property Disputes After the Uruguay Round, printed in International Trade and Intellectual Property:The Search for a Balanced System 122 (Westview Press 1994).

[97] *Id.* at 122.

[98] 19 U.S.C. 2411 (c) (1).

the USTR but the legislative history of the Act points a preference to "tariff increases or to removal of tariff preferences over quantitative restrictions."[99]

Another significant change introduced by the Omnibus Trade Act of 1988 is the creation of a direct role for the United States government as represented by the USTR, in assessing the adequacy of foreign intellectual property law.[100] The Omnibus Trade Act of 1988 provided for a special 301 action, otherwise known as the "Super 301."[101] Prior to the enactment of the Omnibus Trade Act of 1988, there was no statutory provision requiring the identification of mandatory investigation of, or action against the significant trade barriers of a particular country.[102] Super 301 provides for this by requiring the USTR to present to Congress within 30 days from the submission of a National Trade Estimate (NTE)to the Congress and the President, a report indicating the trade barriers and distortionary trade practices that deserved priority consideration during trade negotiations ("priority practices") and countries that should be given priority in negotiations ("priority foreign countries").[103] In identifying "priority foreign countries," the USTR has to take into account:(1) the number and pervasiveness of the acts, policies, and practices included in the NTE reports as significant trade barriers[104]; and (2) the level of US exports of goods and services that would reasonably be expected from full implementation of existing trade agreements to which such foreign country is a party.[105] By no later than 21 days after the submission of the report identifying the priority countries, the USTR shall initiate section 301 investigations of such priority practices for each of the priority foreign countries.[106] The law provides for bilateral initiatives with priority foreign

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[99] Yambrusic, *supra* note 62, at 57.
[100] McDorman, *supra* note 96, at 122.
[101] 19 USCS 2420.
[102] Yambrusic, *supra* note 62, at 64.
[103] *Id.*
[104] 19 USCS 2420 (a)(2)(A).
[105] 19 USCS 2420 (a)(2)(B).
[106] 19 USCS 2420(b).

countries under the shadow of unilateral trade sanctions. Pending investigations, the USTR is also required to negotiate with priority foreign countries for an agreement to be reached within 3 years from the initiation of the investigation which provides for the elimination of, or compensation for the priority practices or the reduction of such practices.[107] Failure to reach an agreement with a country would result in the imposition of trade sanctions under Section 301. An investigation must be suspended if an agreement is entered into with the foreign country before any action under Section 301 is to be implemented.[108] Conversely, if the USTR determines that the foreign country is not in compliance with the agreement entered into during these negotiations, the USTR shall continue the investigation that was suspended by reason of such agreement as though such investigation had not been suspended.[109]

The Omnibus Trade Act, specifically Section 1303 thereof, also amended Section 182 of the Trade Act of 1974. The amendment is called the "Special 301".[110] The Special 301 provision is limited in scope to the protection of intellectual property.[111] It requires the USTR to identify countries that do not adequately protect U.S. intellectual property rights. Within 30 days after the date the NTE is submitted to Congress, the USTR must identify countries that deny adequate and efffective protection of intellectual property rights or fair and equitable market access to US persons that rely upon intellectual property protection and foreign countries that are determined by the USTR to be priority foreign countries.[112] In identifying priority foreign countries, the USTR shall only identify foreign countries that have the most onerous or egregious acts, policies or practices that deny intellectual property rights or market access or whose acts, policies, or practices have the greatest adverse impact (actual or

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[107] 19 USCS 2420 (c)(1).

[108] 19 USCS 2420(c)(2).

[109] 19 USCS 2420(c)(3).

[110] 19 USCS 2242.

[111] Unfair Trade: The Complete Report on Unfair Trade Policies by Japan's Major Trading Partners 79 (Nova Science Publishers, Inc. 1993).

[112] 19 USCS 2242 (a).

potential) on the relevant United States products and are not entering into good faith negotiations or making significant progress in bilateral or multilateral negotiations to provide adequate and effective protection of intellectual property rights.[113] If the USTR makes a determination that an action is warranted under Section 301, the USTR may impose trade sanctions.

Pursuant to Special 301, the USTR has placed seventeen countries on a "watch list" and eight countries on a priority watch list.[114] Among the countries included in the priority watch list are Brazil, Republic of Korea, India, Saudi Arabia, Mexico, Taiwan, China and Thailand.[115] Among those included in the watchlist are Argentina, Malaysia, Canada, Pakistan, Chile, the Philippines, Colombia, Portugal, Egypt, Spain, Greece, Turkey, Indonesia, Venezuela, Italy, Yugoslavia and Japan.[116] The bilateral approach has reaped successes in various countries such as Taiwan, which enacted a new patent law, Singapore and Korea, which improved their intellectual property coverage.[117]

In consonance with the policy of linking intellectual property to trade, Section 1342 of the Omnibus Trade Act of 1988 also amended Section 337 of the Tariff Act of 1930[118] ("Tariff Act"). Section 337, as amended, is designed to protect United States firms from unfair competition from imports.[119] It made unlawful certain unfair methods of competition and unfair acts in the importation of articles, protected under the intellectual property laws of the United States, into the United States.[120]

The operation of Section 337 is triggered when products

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[113] 19 USCS 2242(b)(1).

[114] Marshall A. Leaffer, *Protecting United States Intellectual Property Abroad: Toward a New Multilateralism*, 76 Iowa L. Rev. 273, 296 (1991).

[115] USTR Fact Sheets cited by Leaffer, *id.*

[116] USTR Fact Sheets cited by Leaffer, *id.*

[117] *Id.* at 297.

[118] 19 USCS 1337.

[119] Rushing and Brown, *supra* note 63, at 219.

[120] *Id.* at 25.

imported into the United States violate the intellectual property held by US firms or individuals.[121] Section 337 cases are filed before the US International Trade Commission (USITC), which is required to take no more than 12 months (no more than 18 months in more complicated cases)[122] after date of publication in the Federal Register of notice of investigation[123] to reach a decision. Complaints before the USITC have been generally lodged by private parties. To establish a violation of section 337, the complainant has to prove by the probative weight of evidence:(1) unfair methods of competition or unfair acts;(2) the importation of articles into the United States, or their sale;(3) that will effectively destroy or substantially injure or prevent the establishment of;(4) an industry;(5) efficiently and economically operated in the United States;(6) or will restrain or monopolize trade and commerce in the United States.[124]

The amendment to Section 337 made it a more effective remedy for the protection of US intellectual property rights by making it easier to establish a 337 violation. The amendment removed the requirement that the method of competition or act has "the effect or tendency..to destroy or substantially injure an industry, efficiently and economically operated, in the US"; it also changed the "effect or tendency" language to "threat or effect"; and it also deleted the requirement that the US industry be "efficiently and economically operated".[125] The amendment also established a new set of violations under 337.[126] The new section 337 provides for provisional remedies[127] and strengthened sanctions for section 337

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[121] *Id.*

[122] *Id.* at 221.

[123] Yambrusic, *supra* note 62, at 26.

[124] *Id.*

[125] *Id.* at 67.

[126] Section 337 provides that if a US industry exists or is in the process of being established, it is unlawful to import, sell for importation, or sell within the US after importation, articles that infringe a valid US patent or are made by processes covered by a valid US patent, or semi-conductor chip product that infringes a registered mask work.

[127] It permits the complainant to petition the USITC for issuance of a temporary exclusion order which may be granted ex parte.

violation.[128]

C. Reactions to US Trade Laws: Collision with Free Trade and the GATT

Many view the bilateral approach and unilateral retaliation represented by Section 337, Super 301 and Section 301 as antithetical to the multilateral trade system sought to be established under the auspices of the General Agreement on Tariffs and Trade (GATT). Such approach is objected to on four main grounds: (1) it undermines the basic principle of most favored nation treatment or non-discrimination which underlies GATT[129]; (2) encourages fragmentation of the world market[130]; (3) constitutes a restrictive non-tariff barrier to trade; and (4) causes instability in the international trading system because it creates a significant risk of similar unilateral action against the imposing country.[131]

Indeed, the unilateral approach by the United States triggered an adverse reaction from the European Community (EC). In 1987, in response to a United States Section 337 measure excluding the imports of certain aramid fibers into the United States, the EC Commission issued a Decision initiating an international consultation and dispute settlement procedure under Article XXIII of the GATT. The Decision was based on EEC Regulation 2641/84. A GATT dispute panel, set up in response to a complaint from the EC, found Section 337 was inconsistent with Article III(4) of the GATT because it accords to imported products alleged to infringe US patents, treatment less favorable than that

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[128] Whereas the old law authorized the USITC to issue an exclusion order for the import in question or a cease and desist order, the new section 337 makes it clear that these remedies could be used either in tandem or in the alternative. It also increases the civil penalty for violation of a USITC cease and desist order.

It also provides for default judgments and subsection (i) authorized the USITC, for the first time, to seize and forfeit to the US articles subject to an exclusion order.

[129] Leaffer, *supra* note 114, at 297.

[130] *Id.* at 297.

[131] *Id.* at 299.

accorded under the US federal district court procedures to like products of US origin.[132]

Regulation 2641/84 is the legal mechanism by which Member States of the EEC may invoke the intervention of the EEC against "illicit commercial practices" of non-Member States.[133] Illicit commercial practices are defined as any international trade practices attributable to third countries which are incompatible with international law or with generally acceptable rules.[134] Regulation 2641/84 provides that any commercial policy measures may be taken which are compatible with existing international obligations and procedures, including the suspension or withdrawal of any concession, the raising of existing customs duties or the introduction of any other charge on imports, the introduction of quantitative restrictions or any other measures modifying import or export conditions or otherwise affecting trade with the third country concerned.[135] Thus, like Section 301 of the United States law, Regulation 2641/84 is designed to enforce bilateral and multilateral agreements to which Member States of the EEC are parties.[136] Unlike Section 301, however, it allows no remedies outside those expressly provided for in a particular agreement.[137] Moreover, in cases where there are established international procedures for dispute resolution, retaliatory action may be taken under the regulation only if the dispute cannot be resolved through established international dispute resolution measures.[138]

The potential of Regulation 2641/84 as a unilateral trade sanction mechanism for the protection of intellectual property rights is apparent. In fact, the EC has also invoked it against Indonesia regarding the unauthorized reproduction of sound

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[132] Yambrusic, *supra* note 62, at 48-49.
[133] *Id.* at 35.
[134] Article 2 (1), Regulation 2641/84 dated 17 September 1984.
[135] Article 10, Regulation 2641/84.
[136] Yambrusic, *supra* note 62, at 37.
[137] *Id.*
[138] Unfair Trade, *supra* note 111, at 81.

recordings.[139] In May 1988, the EC terminated the examination procedure conducted against Indonesia pursuant to Regulation 2641/84 on the basis of Indonesia's undertaking to give sound recordings by nationals of Community Member States the same protection as sound recordings by Indonesian nationals.[140]

Canada also provides for a similar rule. Section 59:2 of the Customs Tariff Act permits retaliatory action to be taken for the purpose of enforcing Canada's rights under a trade agreement or responding to acts, policies or practices of the government of the country that, as a result of the discrimination or otherwise, adversely affect or lead directly or indirectly to adverse effects on trade in Canadian goods or services.[141] Under those circumstances, the Canadian government may suspend or withdraw concessions or other privileges to the country concerned; subject the products of the country to a surtax, include such products on the Import Control list or establish a tariff quota system with respect to such products.[142] To date, however, Canada has not invoked this rule.

Thus, a drift towards the imposition of domestic patent standards upon other countries through the use of unilateral trade reprisals became perceptible. Inevitably, the strategy of conditioning trade concessions on provision of intellectual property protection had to confront the issue of compatibility with the framework of rules and negotiating procedures in GATT.[143] The United States spearheaded a move to include intellectual property standards, norms, and enforcement minimums as a code beneath the GATT umbrella.[144] The first effort by the United States to heighten GATT sensitivity to intellectual property protection was a proposal for an anti-counterfeiting code made during the GATT

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[139] Commission Decision 87/553 dated 23 November 1987.
[140] Commission Decision 88/287 dated May 11, 1988.
[141] Unfair Trade, *supra* note 111, at 81.
[142] *Id.* at 81.
[143] Gadbaw, *supra* note 74, at 230.
[144] Kastenmeir and Brier, *supra* note 64, at 287.

Tokyo Round negotiations in the late 1970s.[145] However, the developing countries did not actively participate in these code negotiations, a final text was not agreed upon, and formal GATT action on the proposed code did not take place.[146] As plans for the next round of GATT negotiations were laid, the United States objectives for GATT involvement in intellectual property matters expanded.[147]

V. BRINGING INTELLECTUAL PROPERTY RIGHTS PROTECTION WITHIN THE GATT FRAMEWORK

The GATT is the most important international agreement regulating trade among nations, with more than ninety countries, accounting for well over four-fifths of world trade, subscribing to the agreement.[148] The GATT's declared objective is to provide a framework of certainty and predictability about the conditions in which traders conduct their transactions in the world market and it is the only multilateral instrument that lays down agreed upon rules for the conduct of international trade.[149] The GATT system is based on 5 principles: (1) the most favored nation principle; (2) the national treatment principle; (3) the tariff concession principle; (4) the principle against nontariff barriers and the (5) fair trade principle.[150]

The United States was the primary actor in bringing intellectual property within the GATT framework. Curiously enough, the mandate to bring intellectual property within the GATT fold was not the executive branch of government but the Congress. The executive branch of government traditionally handles issues concerning foreign policy, including treaty

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[145] Frederick M. Abbott, *Protecting First World Assets in the Third World: Intellectual Property Negotiations in the GATT Multilateral Framework*, 22 Vand. J. of Transna'l L. 689, 712 (1989).

[146] *Id.*

[147] *Id.*

[148] Leaffer, *supra* note 114, at 298.

[149] *Id.* at 298.

[150] *Id.* at 299.

negotiations. However, in the case of the negotiations in GATT concerning intellectual property, the Congress took the lead. The Omnibus Trade Act of 1988 outlined the principal negotiating objectives of the United States in furthering intellectual property, to wit:

> (1) The enactment and effective enforcement by foreign countries of laws which recognize and adequately protect intellectual property, including copyrights, patents, trademarks, semiconductor chip layout designs, and trade secrets, and provide protection against unfair competition;
>
> (2) To establish in the GATT obligations (a) the implementation of adequate substantive standards based on the standards existing in international agreements that provide adequate protection and the standards in national laws if international agreement standards are inadequate or do not exist; (b) effective procedures to enforce, both internally and at the border, the standards; and (c) the implementation of effective dispute settlement procedures that improve on existing GATT procedures;
>
> (3) To recognize that the inclusion in the GATT of adequate and effective substantive norms and standards for the protection and enforcement of intellectual property rights and dispute settlement provisions and enforcement procedures is without prejudice to other complementary initiatives undertaken in other international organizations; and
>
> (4) to supplement and strengthen standards for protection and enforcement in international intellectual property conventions administered by other international organizations, including their expansion to cover new and emerging technologies and elimination of discrimination or unreasonable exceptions or preconditions to protection.[151]

Political pressure played a key role in placing the intellectual property issue at the forefront of the trade negotiating agenda.[152] The very fact that the GATT negotiating objectives on intellectual property was delineated by Congress reveals the hand

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[151] 19 USCS 2241 ((b)(10).

[152] Leaffer, *supra* note 114, at 300.

of the private sector. Congress was the forum of choice of the private sector. The Congress is the institution most susceptible to pressure from its powerful industrial sector constituents. United States industry advocates, a powerful domestic constituent, actively promoted the GATT solution.[153] In fact, the impetus for linking intellectual property rights and trade in general, and for the GATT initiative in particular, is largely attributed to the private sector.[154] The most significant decision made initially by the private sector and embraced by the US government is the concept that the GATT, rather than the World Intellectual Property Organization (WIPO), should be the focus of US efforts to improve intellectual property rights.[155] Former President George Bush in his March 1991 *Report to Congress on the Extension of the Fast Track Procedures disclosed that* the United States position in the GATT negotiations originated from recommendations of private U.S. companies.[156] The stakes for the US business community are extremely high. The International Chamber of Commerce in 1986 estimated that that losses incurred due to world-wide intellectual property infringement reached around $60 billion or 3-9 percent of total world trade.[157] In another study, the U.S. International Trade Commission (USITC) in 1988 reported that the aggregate worldwide losses suffered by 431 U.S. companies due to inadequate intellectual property protection reached $23.8 billion.[158]

The initial obstacle to the plan was that GATT is virtually silent on intellectual property.[159] To overcome this obstacle, the United States framed the protection of intellectual property rights as a trade issue by branding violations of intellectual property rights as unfair trade practices.

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[153] *Id.*

[154] Gadbaw, *supra* note 74, at 39.

[155] *Id.* at 40.

[156] Al J. Daniel, Jr., *Intellectual Property in the Uruguay Round: The Dunkel Draft and a Comparision of United States Intellectual Property Rights, Remedies, and Border Measures*, 25 N.Y.U. J. Int'l L. & Pol. 751, 755-756 (1993).

[157] Rushing and Brown, *supra* note 63, at 164.

[158] *Id.*

[159] Abbott, *supra* note 145, at 712.

Intellectual property rights was included in the agenda of the Uruguay Round of the General Agreement on GATT. On September 20, 1986, at Punta del Este, Uruguay, the ministers of the contracting parties of the GATT issued a declaration. The Ministerial Declaration on this topic states:

> "*Trade Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods.*
>
> 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 approriate 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." [160]

The new mandate was controversial because before and after its adoption, a significant number of developing countries insisted that the GATT should not and does not contemplate the negotiation of substantive intellectual property standards.[161] Developing countries insisted that there is no proper nexus between international trade and intellectual property rights. As the United States conceded when presenting its intellectual property proposal to the TRIPs working group, intellectual property rights protection is a new area of negotiation within the GATT.[162] Thus, according to the developing countries such as Brazil and India,

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[160] Robert M.Sherwood, Intellectual Property and Economic Development 9 (Westview Press, Inc. 1990).

[161] Abbott, *supra* note 145, at 713.

[162] *Id.* at 737.

WIPO is the appropriate forum for the negotiation of intellectual property standards[163] as it is the sole international body with the right to deal with intellectual property rights on an international plane. This, however, became moot at a WIPO meeting in October 1987 when Arpad Bogsch, Director General of the Organization, received a mandate to take part in the GATT talks on intellectual property.[164] The United States supported the WIPO participation in the GATT's deliberations:

> "(T)he participation by WIPO or its Director General in the GATT operation does not in any respect mean that WIPO should abandon its own programs. A considerable amount of work remains to be done in WIPO itself. Participation in the GATT talks will not result in abandonment of these programs but might give guidance to an organization which is recognized by all as not being skilled in intellectual property matters as WIPO."[165]

As a result of the Uraguay Round mandate, a GATT working group on Trade Related Aspects of Intellectual property (TRIPs) was constituted. However, it was not until April 1989 did the developing countries agree to let negotiations on substantive standards proceed, reserving the issue of the GATT's competence to promulgate new rules.[166]

The United States took the lead in bringing intellectual property rights within the framework of the GATT while the other major players from the industrialized countries, the EC and Japan, adopted a less aggressive approach in the negotiations.[167] While Japan and the EC supported the goal of a better international intellectual property rights protection, they did not share the US enthusiasm concerning the use of GATT to set international standards for intellectual property systems.[168] Among the major concerns was the use of domestic intellectual property laws as

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[163] *Id.* at 713.
[164] Yambrusic, *supra* note 62, at 90.
[165] *Id.* at 90-91.
[166] Abbott, *supra* note 145, at 713-714.
[167] Braga, *supra* note 1, at 251.
[168] *Id.*

"barriers to legitimate trade," as in the case of section 337.[169] There were also significant differences in terms of negotiating tactics. The EC, for instance, suggested that negotiations should first address the issue of repression of counterfeiting and piracy and only after sufficient progress in this area has been achieved should the negotiations focus on "weaknesses in the availability and scope of basic rights."[170]

The private sector also actively participated in the GATT negotiations. In June 1988, a broad based and influential coalition of United States, EC, and Japanese industry groups published a detailed and carefully considered proposal entitled Basic Framework of GATT Provisions on Intellectual Property, Statement of Views of the European, Japanese and United States Business Communities.[171] The United States business community was represented by the Intellectual Property Committee[172] ("IPC"), the EC by the UNICE[173] and the Japanese business community, by the Keidaren[174].The business community suggested that a set of fundamental principles for a code of minimum standards can be selected from existing national statutes and international conventions to serve as a basis for an international code to protect all kinds of intellectual property.[175] The aim of the proposal was to arrive at a consensus among the major trading partners (US, EC, Japan and Canada) and as a uniform block present the final proposal to GATT.[176]

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[169] *Id.*

[170] *Id.*

[171] Abbott, *supra* note 145, at 716.

[172]IPC members include Bristol-Meyers, E.I. Dupont, FMC Corp., General Electric, General Motors, Hewlett-Packard, IBM, Johnson & Johnson, Merck, Monsanto, Pfizer, Rockwell International, and Warner Communications.

[173] UNICE is the Union of Industrial and Employers' Confederation of Europe which represents 33 member federations from 22 European countries.

[174] Keidaren is the Japan Federation of Economic Organizations which represents virtually all branches of economic activities in Japan and maintains close contact with both public and private sectors.

[175] Yambrusic, *supra* note 62, at 89.

[176] *Id.*

The GATT was a forum of choice for industrialized countries. The fuel for the development of newly industrialized countries was an export oriented industrialization.[177] In order to continually rely upon this mechanism for development, the newly industrialized countries needed continued access to the markets of industrialized countries ensured under the free trade international economic order established in the wake of WW II. Thus, they had a compelling interest in the maintenance of the free trade order to be presided over by the GATT. As against newly industrialized countries, industrialized countries could utilize market access as a bargaining chip to be exchanged for greater protection of intellectual goods.[178] As to the other developing countries, the GATT involved numerous issues vital to their interests. India, for example, was interested in textiles, tariffs, trade related investment measures and services. On textiles, the developed countries have maintained a highly restrictive regime through the Multi-Fibre Arrangement(MFA) under which there were few restrictions on imports of textiles from developed countries but quotas were fixed in various categories for imports from developing countries. Along with other developing countries, India has been pressing that the MFA must go as it penalizes the most efficient producer of such goods.[179] Thus, there are a variety of concessions that the industrialized countries might grant to the developing countries in exchange for a GATT agreement on the protection of intellectual property. These range from concessions with respect to compensation due for intellectual property itself,to concessions in other trade areas, even to concessions not technically within the international trade regime.[180]

On April 7, 1994, the Ministers signed the Final Texts of the GATT Uruguay Round Agreements in Marrakesh, Morrocco. Included in the Agreement was an Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in

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[177] James V. Feinerman, 1.

[178] Reichman, *supra* at 61, 8.

[179] Press Information Bureau, Nov. 30,1990, 1 (GATT negotiations).

[180] Abbott, *supra* note 145, at 739-740.

Counterfeit Goods (hereinafter, the TRIPs Agreement or Agreement). The TRIPs Agreement established international standards for the protection of intellectual property rights which substantially reflect the proposals of the United States. This set the stage for a change in the international patent system: from a domestic policy driven substantive and enforcement standards to internationally set standards and from the imposition of unilateral trade sanctions to enforce intellectual property standards to the multilateral approach under the GATT.

The TRIPs Agreement expanded the application of the Paris Convention by incorporating Articles 1-12 and 19 of the Paris Convention.[181] Thus, TRIPs parties who are not signatories to the Paris Convention are bound to observe such provisions. Among the Paris Convention principles incorporated into the Agreement were the national treatment principle, right of priority, independence of patents and product importation. Article 19 of the Paris Convention provides that countries of the Union reserve the right to make separately between themselves special agreements for the protection of industrial property.

The TRIPs Agreement also established international substantive standards concerning the availability, scope and use of patents. The Agreement has a broader subject matter than the Paris Convention. Under the Agreement, patents shall be available for any inventions, whether products or processes, in all fields of technology, provided they are new, involve an inventive step and are capable of industrial application.[182] Thus, pharmaceuticals and biotechnology which were previously not covered by the patent systems of developing countries are now compulsorily covered. The TRIPs Agreement also specifically provides that the patent system extends not only to processes but also to products. It also provided that a defendant in an infringement suit involving a process patent has the burden of proving that the process to obtain an identical

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[181]Article 2, Agreement on Trade Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods (TRIPs Agreement), April 7, 1993.

[182] Section 5, Article 27(1), TRIPs Agreement.

product is different from the patented process.[183] The Agreement also established a uniform term of protection, i.e., twenty years counted from the filing date.[184] It also overrides the obligation to work patents locally as it secures legal recognition of the patentee's exclusive rights to import the patented products.[185] While the Agreement sanctions the forfeiture of patents provided that there is an opportunity for the judicial review of any decision to revoke or forfeit the patent[186], the provisions of the Paris Convention concerning the forfeiture of patents still applies. Thus, importation by the patentee of the patented product shall not be a ground for the forfeiture of the patent; forfeiture shall not ensue if the grant of compulsory licensing is sufficient and if a compulsory license is granted, no forfeiture proceedings may be instituted until the lapse of two years.

While the Agreement recognizes the right of states to "adopt measures necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socio-economic and technological development," it requires that such measures be consistent with the provisions of the Agreement.[187] The Agreement further provides that while members may provide limited exceptions to the exclusive rights conferred by a patent, such exceptions must not unreasonably conflict with a normal exploitation of the patent and do not reasonably prejudice the legitimate interests of the patent owner.[188] While it allows uses of the patent without the authorization of the patent holder, e.g., compulsory licensing and state use, it also limits the availability of

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[183] Article 34, TRIPs Agreement.

[184] Section 5, Article 33, TRIPs Agreement.

[185] J.H. Reichman, *Beyond the Historical Lines of Demarcation: Competition Law, Intellectual Propetry Rights, and International Trade After the GATT's Uruguay Round*, 20 Brooklyn J. Int'l Law 75, 99 (1933). Article 27, par. 1 of the Agreement provides that "patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced.

[186] Article 32, TRIPs Agreement.

[187] Article 8(1), TRIPs Agreement.

[188] Article 30, TRIPs Agreement.

such uses by prescribing the grounds therefor.[189] Among the grounds enumerated are: prior unsuccessful efforts to obtain authorization from right holder; limited use; non-exclusivity and non-assignability of the license or use; production limited for the domestic market; and the payment of adequate remuneration.[190] Moreover, the Paris Convention prescribed periods for the issuance of a compulsory license on the ground of failure or insufficent working of the patent still applies, i.e., four years from the date of the filing of the patent application or three years from the date of the grant of the patent, whichever expires last.

The TRIPs Agreement also provided for international enforcement standards of intellectual property rights within the internal legal systems of Members. It enjoins the Member states to ensure that enforcement procedures specified in the Agreement are available under their national laws, e.g., decisions shall be in writing and reasoned; decisions shall be based on evidence; and the provisions of judical review of final administrative decisions. The Agreement also provides for civil and administrative procedures and remedies such as injunctions, damages and expenses and other remedies (destruction); provisional measures; special border measures; criminal procedures and penalties to be applied in cases of willful trademark counterfeiting or copyright piracy on a commercial scale and in other cases of infringement of intellectual property.

The TRIPs Agreement provides for procedures for the prevention and settlement of disputes among Member states. Article 63 requires transparency of governmental actions, e.g., publication of laws and regulations, final judicial decisions and administrative rulings of general application regarding the availability, scope, acquisition, enforcement and prevention of abuse of intellectual property, including agreements between governments, including governmental agencies. Members are required to notify the Council for Trade-Related Aspects of

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[189] Article 31, TRIPs Agreement.
[190] Article 31, TRIPs Agreement.

Intellectual Property Rights regarding the above stated laws and regulations. The Council is tasked with monitoring the operation of the Agreement.[191]

The TRIPs Agreement also provided for a multilateral dispute mechanism. The provisions of Articles XXII and XXIII of the General Agreement on Tariffs and Trade 1994 as elaborated and applied by the Understanding on Rules and Procedures Governing the Settlement of Disputes shall apply to consultations and the settlement of disputes under the Agreement.[192]

The TRIPs Agreement is notable because for the first time, technology transfer is a stated purpose of the international patent system. Article 7 of the Agreement mandates that the "protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology." Further, the Agreement recognizes the existence of anti-competitive effects of patents and specifically provides for the control thereof. Article 8 recognizes that "appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology." Article 40 of the Agreement recognizes that "some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology." Thus, under the Agreement, member states may specify in their national legislation licensing practices or conditions that constitute an abuse of intellectual property rights. Member states are allowed to adopt measures to prevent or control these practices. The Agreement also provides for consultations between the state whose laws and regulations are violated and the state where the offending patentee is a national or domiciliary.

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[191] Article 68, TRIPs Agreement.
[192] Article 64, TRIPs Agreement.

As a concession to developing countries, the Agreement provides for grace period prior to its effectivity. Article 65 provides a one year grace period counted from the entry into force of the Agreement establishing the MTO for all members. Moreover, developing countries are entitled to delay for a further period of 4 years the application of the provisions of the Agreement save the national treatment, Most Favored Nation and Article 5 of Part I. It also provides that to the extent that a developing country Member is obliged to extend product patent protection to areas of technology not so protectable in its territory on the general date of aplication of this Agreement for that member, it may delay the application of the provisions on product patents of Section 5 of Part II of this Agreement to such areas of technology for an additional period of 5 years. Article 66 provides for a longer grace period for least-developing country members, i.e., 10 years extendible by the Council.

VI. ASSESSMENT OF THE CHANGE IN THE INTERNATIONAL PATENT SYSTEM: TRENDS AND POLICIES

The domestic patent system presents an internal policy dilemma: providing incentives to ensure technological advancements through the patent system and ensuring public access to these technological advancements by regulating the rights of the patent holders. The state has an interest in ensuring technological development. Thus, states provided incentives for inventors to continue creating goods of social value by establishing domestic patent systems. A patent system which provides incentives for the continued creation of technological goods and a method of disclosure of technological advancements serves societal interests by encouraging technological development. However, the state also has an interest in ensuring that the public would have access to these technological advancements. Thus, the state regulates the rights of the holders of industrial property. The grant of a patent carries with it the inherent danger that the patent be used to stifle competition and to perpetuate a monopoly. A patent grants to the patent holder the exclusive right to the use

of the patented invention. If it is utilized as a monopolist instrument for stifling free competition, the societal advantages of the patent system will be negated. Instead of being an incentive for the production of technological goods, it will become a tool for perpetuating monopolies. The utilization of the patent system in such a manner defeats the very purpose for which the patent system was established. Thus, the domestic patent system must achieve a delicate balance between the two conflicting rights inherent in it: the rights of the inventor to incentives and the rights of the public to have access to technological advancements. If the rights of the patentees are strengthened at the expense of the rights of the public, the patent system ceases to serve the common societal interest. Instead of providing greater incentives for more inventions, the absence of competition will lead to stagnation in technological development.

The conflict that pervades the domestic patent system holds true in the international patent system. Also inherent in the international patent system is a conflict between two goals: providing an incentive for generators of technology and ensuring free competition and easy access to transferees of technology. The conflict is sharpened by the fact that it involves two contending interests: the interests of the patent holders represented by the industrialized countries and the interests of the technology transferees represented by the developing countries. The industrialized countries insist on an effective and efficient international patent system while developing countries argue for an international patent system which grants it preferential treatment. Industrialized countries claim that an effective and efficient international patent system will ensure greater technological development by ensuring industrial property owners a return on their investments. Developing countries, on the other hand, claim that an international patent system which does not recognize their developmental needs will stifle development. Industrialized countries contend that patents are private property, the increased protection of which results in increased incentives for technological innovation. The developed countries contend that

patents are abused and impedes technology transfer and ultimately lead to the stagnation of technological development.

It is without a doubt that the interests of the world community is best served by a technology based society. Technology improves the quality of life for all. Technology multiplies the uses of resources previously deemed near exhaustion and creates or identifies new ones. Technology ushers in greater productivity and provides tools to solve societal problems. Thus, the generators of technology should be given an incentive to continue creating better technology. An international patent system which provides for this incentive serves the common interest. However, it is also without a doubt that the dissemination of technology serves the common good. Access to technology should be ensured. The concentration of technology in one part of the globe only widens the disparity and exacerbates the existing tensions between industrialized countries and developing countries.

An ideal international patent system achieves a balance between allocating control which spurs incentive to create and preventing abuse of the control which inhibits the transfer of technology.[193] Consequently, there is a need to balance the interests of the patent holders and the interests of the developing countries.

In fact, the need is more compelling because of the disparity in development between industrialized nations and developing countries and because of the very fact that patents are overwhelmingly held by multinational corporations driven by private interests.

Tested against this standard, does the TRIPs Agreement accommodate the interests of both industrialized countries and developing countries? Does it achieve a balance between the continued provision of incentives for the development of technology and a system for the prevention of patent abuse?

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[193] Loughran, *supra* note 42, at 417.

The TRIPS Agreement recognizes the inherent conflict of interests in the international patent system, i.e., the interests of the holders of industrial property and the interests of the developing countries, and the need to balance these interests. The TRIPS Agreement has also for the first time, incorporated technology transfer as one of the purposes of the international patent system. It provides:

> The protection and enforcement of intellectual property rights should contribute to the promotion of technological innovation and to the transfer and dissemination of technology, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations."[194]

However, despite the implicit acknowledgement of the inherent conflict and the need to balance the contending rights, the TRIPS Agreement tips the scale of protection in favor of the interests of the industrial property owners represented by the industrialized countries. The interests of the industrialized countries were clearly accommodated by the TRIPs Agreement.

It is not only the interests of the industrialized states which are accommodated in the TRIPs Agreement. The significant role of the multinational corporations in the development of the international law on intellectual property is patent. The multinational corporations pressured Congress to put intellectual property rights first in the trade agenda. Congress is the branch of government most susceptible to pressure from its influential private sector constituent. Thus, the mandate to bring intellectual property rights within GATT was in the form of a legislative initiative. Congress outlined the policy with regard to GATT and intellectual property rights in the Omnibus Trade Act of 1988. The United States position in the TRIPs negotiations were based on the proposals of US corporations. Moreover, multinational corporations actively participated and submitted their own proposals. The inherent danger of increased influence for multinational

[194] Article 7, TRIPs Agreement.

corporations in the making of international law is that private interests do not necessarily converge with the interests of the international community. In determining what is good or bad for the international community, the special interests of particular parties should not prevail over the common interests of all. In the case of the TRIPs negotiations, the influence of the private sector was overwhelming. Their increased influence was a logical outcome of the internal political dynamics in the industrialized countries where the tides of protectionism were winning the day.

The TRIPs Agreement strengthened the international protection of industrial property. It radically expanded the scope, coverage and reach of the international patent system. Where pharmaceuticals, life forms and food products may be properly excluded from the patent system under the Paris Convention, the Agreement makes it clear that it is now covered by the international patent system for as long as such products are new, involve an inventive step and are capable of industrial application. The Agreement will also sweep into the coverage of the international patent system fields of technology which were not previously covered. Most serious of this is biotechnology which is concerned with the production of the most basic needs: food and medicine.

The TRIPs Agreement did not address the issues raised by the developing countries regarding the Paris Convention. Instead it expanded the coverage of the Paris Convention by incorporating its provisions by reference. Under Article 2(1) of the Agreement, members shall comply with Articles 1-12 and 19 of the Paris Convention. Thus, countries like India who are not signatories to the Convention are now bound to observe the provisions.

More importantly, the Agreement by bringing intellectual property protection within the framework of the GATT, has secured to industrialized countries the legitimacy of using trade sanctions as a means of enforcing the provisions of the Agreement. While any dispute concerning the Agreement may be subject to the multilateral dispute mechanism of the GATT, the enforcement of

any decision may be undertaken through the use of trade sanctions. Under Article 22(1) of the Understanding on Rules and Procedures Governing the Settlement of Disputes, the prevailing party in a decision adopted by the Dispute Settlement Body (DSB) may be authroized to impose the sanction of suspension of concessions on the party that has not implemented the recommendations of the DSB within a reasonable time. Article 22(3) of the Understanding further provides that in considering what concessions or other obligations to suspend, the complaining party shall apply the following principles:

> "(a) the general principle is that the complaining party should first seek to suspend concessions or other obligations with respect to the same sector(s) as that in which the panel or Appellate Body has found a violation or other nullification or impairment;
>
> (b) if that party considers that it is not practicable or effective to suspend concessions or other obligations with respect to the same sector(s), it may seek to suspend concessions or other obligations in other sectors under the same agreement;
>
> (c) if that party considers that it is not practicable or effective to suspend concessions or other obligations with respect to other sectors under the same agreement, and that the circumstances are serious enough, it may seek to suspend concessions or other obligations under another covered agreement..."

However, it is also equally clear that the interests of the developing countries were not sufficiently represented in the TRIPs Agreement. None of the objections of the developing world to the existing international patent system were accepted and incorporated into the text. Instead, provisions of the Paris Convention, e.g., independence of patents, right of priority, national treatment, objected to by the developing world were incorporated. Moreover, while the Agreement recognized the possibility of abuses, it did not provide for institutional mechanisms to address patent abuses. Instead of prescribing standards for states regarding controls on restrictive practices, it delegated the matter to the states. The TRIPs Agreement merely provides that states may

legislate on patent abuses and consult with the state where the erring patent holder resides or is domiciled. It also did not identify restrictive business practices other than "exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing" nor did it institutionalize mechanisms to counter it.

Thus, while the TRIPs Agreement recognizes that the international patent system should contribute to the transfer and dissemination of technology, it does not institutionalize mechanisms for ensuring it. Instead, it institutionalized the mechanisms to protect and advance the rights of holders of industrial property.

This is not a positive development for the world order. The development of the developing countries is an imperative need for world order. Access to technology is an indispensable prerequisite to development. An international patent system which sanctions or fails to address impediments to technology transfer contributes to the instability of the world order. Development is essential to world stability. It is no longer an issue solely for developing countries. As the world becomes more interdependent, the interest of the industrialized countries in the development of the developing countries becomes more compelling. Development of the developing countries assures worldwide growth. The expansion of the economies of developing countries assures industrialized countries of an expanding international market for their goods.[195] Rising prosperity in developing countries therefore will expand world trade and fuel growth throughout the world.[196] Moreover, continued impoverishment and technological backwardness in developing countries exacerbates domestic tensions and promotes instability. Such instability and unrest affect the rest of the world. Worsening poverty leads to greater migration to other countries. The continued scarcity of resources increases conflicts over resources. Conflicts are no longer isolated within national borders but spill over

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[195] Guo, *supra* note 33, at 135.
[196] *Id.*

borders. The consequences of such conflicts are ultimately borne by the international community.

Moreover, the failure of the TRIPs Agreement to squarely address patent abuses negates an essential attribute of a patent system: providing further incentives for technological advancements. Restrictive business practices are designed to entrench the dominant market position of a industrial property holder and to prevent the entry into the market of new competitors. If such practices are not curtailed, then the net effect would be a monopoly on the patented products by the patent holder. The absence of competition in the production of patented products would result in the stagnation of technological development.

The success of the industrialized countries in the TRIPs negotiations owe much to their success in linking trade and the protection of intellectual property rights. Once intellectual property was brought within the ambit of the GATT, developing countries had to subjugate concerns about technology transfer to the maintenance of their access to foreign markets guaranteed under the free trade order. While the TRIPs Agreement failed to represent an advancement in the international patent system, it represents an advance in the area of free trade. The linkage of intellectual property to trade within the domestic system was a natural outcome of the pressures within the domestic legal system. In the United States, powerful constituents lobbied for greater governmental protection of industrial property. The lobby succeeded and the result was the enactment of trade laws which redefined United States trade policy. The equilibrium between the executive branch and the legislative branch over trade as an instrument of foreign policy was shattered as there was less interests in protecting its international sphere of influence as there was more compelling interests to advance its international economic interests. The political mood did not augur well for free trade. There was tremendous pressure to protect United States industries and to advance its interests worldwide.

The successful conclusion of the Uruguay Round and the

TRIPs Agreement was advantageous to the maintenance of the free trade order. The free trade system had allowed developing countries to succeed in ushering development because it guaranteed access to the markets of industrialized as well as developing markets. However, there was tremendous pressure within the internal political systems to move away from free trade norms towards protectionism. Unilateralism manifested the dominance of the protectionist tide within the domestic systems. The continued drift towards unilateral imposition of sanctions as a means of enforcing intellectual property rights protection was detrimental to the free trade system. It created market fragmentation as one powerful state can, under the shadow of unilateral reprisals, extract greater protection from another country. It also opened the door for the utilization of the patent system as a non-tariff barrier to trade. Moreover, it fostered instability as it enabled other states to wield the same weapon. Thus, the move towards multilateralism under the auspices of the GATT staved off further weakening of the free trade system.

Pursuant to the Agreement, states party to the TRIPs Agreement will introduce amendments to their patent system to comply with the standards contained in the Agreement. The inclusion of intellectual property rights within the GATT framework assures this. All states, industrialized or developing, have an interests in complying with the Agreements signed under the aegis of the GATT. However, the developmental needs of the developing countries would create irrisistible pressure within their own systems to exploit technologies not sufficiently covered by the GATT. Necessity will direct developing countries to seek out area of technology not sufficiently protected by the Agreement. The GATT does not sufficiently protect new information technologies. For example, electronic information tools were merely secured copyright protection under the Berne Convention without considering the need for supplementary forms of relief lying outside copyright and trade secret law.[197] Neither copyright nor trade secret laws prevent reimplementation of functionally equivalent behavior by proper

[197] Reichman, *supra* note 185, at 113.

means, nor will these laws impede second comers in developing countries from using components that are functionally determined.[198]

Nor does the TRIPs Agreement prevent further attempts to impose restrictive business practices. Powerful interests in the industrialized countries have yet to be held at bay. The political atmosphere in industrialized countries favor their further advancement. There will be increased pressure to impose restrictive licensing conditions. The protectionist tide will lead to increase restraints on trade, including barriers to entry, affecting new objects of protection.[199] Moreover, the unilateral and bilateral actions sanctioned under trade laws of industrialized countries, i.e., Super 301,Special 301, Regulation 2641/84, will likely be invoked by industrialized countries to ensure the protection of technologies not protected under the GATT. During the Senate deliberations on HR 5110, the implementing legislation of the Uruguay Agreement, Senator Patrick Moynihan made a categorical statement that the United States will still be able to retaliate for trade practices not covered in the GATT.[200]

The amendment of the TRIPs Agreement to balance the interests of the industrialized countries and the developing countries is not forthcoming. The political temperature favors protectionism. Thus, to counteract the inadequacy of the TRIPs Agreement in addressing the concerns of developing countries, developing countries should enact domestic legislation which would strengthen their anti-competition laws. While the Agreement did not provide for institutional mechanisms to control patent abuses, it provides a starting point. Article 40 of the Agreement provides that member states can specify in their national legislation licensing practices or conditions that constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. Developing countries have previously limited patent abuses to instances of underutilization or local non-

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[198] *Id.* at 115.

[199] *Id.* at 79.

[200] 140 Cong. Rec. S. 15271 *S15301.

working of patents.[201] The definition of patent abuses must be expanded to all forms of practices which are designed to limit competition. Thus, developing countries should further define and institute mechanisms against patent abuse. It is also imperative that constituents who would be adversely affected by patent monopoly must be empowered to challenge anti-competitive practices of patent holders. Already, the effects of unrestrictive business practices affect consumers and the expansion of the patent system affect farmers and indigenous peoples. The expansion of the international patent system to new areas such as biotechnology must be addressed with mechanisms to prevent its possible abuse.

Moreover, developing countries should be armed with a counterveiling force against industrial property holders. This could be achieved by forming blocs or groupings to address and respond to abuses committed by patent holders. A uniform code on restrictive business practices would provide a counterveiling force to abusive patent holders. Eventually, the international patent system will have to converge with an international anti-trust or competition system. There is a need to balance the international patent system with an international anti-trust and competition system.

Developing countries should also explore the possibility of using the GATT/WTO as a forum to address restrictive business practices. While the TRIPs Agreement does not set a standard for dealing with restrictive practices, such practices can be challenged before the GATT under the rubric of unfair trade. As trade expands, GATT will increasingly move towards covering anti-competitive practices. The GATT will be a powerful tool because it secures greater enforcement.

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[201] Reichman, supra note 185, at 89-90.

VIII. CONCLUSION

The Paris Convention was created at a time when the world was dominated by industrialized countries. It was established to secure greater rights for industrial property owners. Its origin and purpose animated the future workings of the Union. Despite the change in the composition of the international patent system with the entry of newly emerging decolonized states, the structure of the Union was impervious to change. Despite the fact that the developing countries had obtained a majority, the Paris Convention was not changed to accommodate and reflect their interests. Its purpose continued to be the protection of the rights of industrial property holders and not technology transfer. The TRIPs Agreement represents a consolidation of the gains of industrial property holders under the Paris Convention and the expansion of their rights. The TRIPs Agreement not only incorporated the provisions of the Paris Convention but established increased international standards as to the availability, scope and enforcement of patent rights. Thus, instead of achieving a balance between the competing interests of the industrialized countries and the developing countries, it has favored the rights of patent holders by securing a wider and broader scope of protection for industrial property without addressing squarely the problems of patent abuse. It is thus, left to the developing states to remedy the imbalance. States must pass domestic measures to protect against patent abuses. Eventually, an international code on anti-trust to remedy restrictive business practices will have to be spearheaded by the developing countries.

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