Protecting and Enforcing Intellectual Property Rights in Developing Countries

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I. Introduction

The current economy, relative global peace, and political reform movements have made direct foreign investment in developing countries a serious consideration for many U.S. and transnational companies. This article reviews the official mechanisms for protecting and enforcing intellectual property rights that are available to U.S. companies that are doing business in developing countries.[1] Part II outlines the scope of intellectual property theft in developing countries and reasons for the problem. Part III examines the private and public resources that are available to help U.S. investors assess risks and initiate complaints. The standards set forth in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and problems in implementing and enforcing this agreement are considered in detail. Differences between the TRIPS and the intellectual rights property provisions in the North American Free Trade Agreement (NAFTA) are compared. Part IV surveys the degree of success in enforcing intellectual property rights by the World Trade Organization (WTO), enforcement of private investor's rights under the NAFTA, and unilateral actions taken by the U.S. trade representative. Finally, Part V concludes by comparing the relative merits of the methods considered by focusing on the following question: Are international intellectual property law agreements effective?

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1. Although beyond the scope of this article, private licensing agreements, third-party arbitration, and public private agreements are important alternatives to the mechanisms considered here. *See* Konrad L. Trope, *To Battle Piracy in China, IP Companies May Turn to Self-Help*, IP WORLDWIDE, July/Aug. 1997; Carmen Collar Fernandez & Jerry Spolter, *International Intellectual Property Dispute Resolution: Is Mediation a Sleeping Giant?*, 53 DISP. RESOL. J. 62 (1998); Charles Kenworthey Harer, *Arbitration Fails to Reduce Foreign Investors' Risk in China*, 8 PAC. RIM L. & POL'Y 393 (1999); J.H. Reichman & David Lange, *Bargaining Around the TRIPS Agreement: the Case for Ongoing Public-Private Initiatives to Facilitate Worldwide Intellectual Property Transactions*, 9 DUKE J. COMP. & INT'L L. 11 (1998).

II. Scope of the Problem

A. Going Global

As the economies of developing countries make the transition from agricultural-subsistence to urban-middleclass, they become more attractive to foreign investors. The increased spending power of individual citizens, growth of local businesses, and ensuing infrastructure needs of governments offer huge growth and profit potentials to U.S. investors that can supply requisite high technology-based goods and services. Early access and entry into these markets helps to establish a company's dominant market position, thereby maximizing future profits.

For example, foreign direct investment in developing countries by multinational corporations was expected to grow by 20 percent per year until 2001.[2] In particular, the People's Republic of China (PRC) and other Asian markets with huge growth potential are likely to see large amounts of foreign investment. Excluding Hong Kong and Taiwan, the United States is now the largest investor in the PRC.[3] The flow of foreign direct investment into Asia has doubled during the 1990s.[4] Similar growth is possible in Latin America.[5] Opposing the potential for profits, however, are trade barriers that still exist in developing countries—including the theft of intellectual property.

B. The Scope of Intellectual Property Theft

There is rampant and in many instances unfettered intellectual property theft in many developing countries. Trade losses due to the piracy of copyrighted material were estimated at almost $10 billion in 1998 with 25 percent coming from the PRC alone.[6] Global losses due to software piracy were estimated at $11 billion in 1998.[7] In Vietnam, the PRC, Indonesia, and Russia, more than 90 percent of all business application software has been pirated.[8] The overall piracy rate was 62 percent in Latin America, with Mexico, Brazil, and Argentina accounting for over $600 million in losses.[9] One report estimates that

2. *See* David Crane, *Multinationals Are Gaining, United Nations Report Says*, The Toronto Star, Sept. 22, 1997, at C2 (summarizing World Investment Report produced by the U.N. Conference on Trade and Development).

3. *See* Trade Compliance Center, *China Country Commercial Guide-1999*, *available at* http://199.88.185.106/tcc/data/commerce_html/countries/china/countrycommercial/1999/countrycommercial.html (last visited Sept. 14, 2001).

4. *See* U.N. Conference on Trade and Development, *Asia's Share of Global FDI Doubles in 1990s*, *available at* www.unctad-10.org/pdfs/pressrel_23.en.pdf (last visited Feb. 17, 2000).

5. *See* Frances Williams, *Latin America Sees Investment Surge*, Fin. Times, Feb. 2, 2000, at 7 (foreign direct investment into Latin America increased 32% from 1998 to 1999, according to the U.N. conference on trade and development).

6. *See* International Intellectual Property Alliance, *Estimated Trade Losses Due to Piracy*, *available at* www.iipa.com/pdf/1999_Losses.pdf (last visited Sept. 14, 2001).

7. *See* Business Software Alliance Press Release, *Worldwide Business Software Piracy Losses Estimated at Nearly $11 Billion In 1998*, *available at* www.bsa.org/usa/press/newsreleases/1999-05-25.239.phtml (last visited Sept. 14, 2001).

8. *See id.*

9. *See id.*

500,000 pirate video compact disks are smuggled into the PRC from Macau daily and then openly sold in stores in the capital.[10]

Patented drugs are particularly vulnerable to theft by producing pirate generic versions either by using methods revealed in the patent itself or by chemical analysis of the final product and development of alternative synthetic routes.[11] The negative effects of the intellectual property theft of drugs are not isolated to developing countries. The epidemic of fake or untested generic drugs also raises significant health risks for people in developing and least developed countries treated with substandard antibiotics or other diluted medicines.[12] The extent of losses due to counterfeit goods has reached such high levels that some western companies have decided to stop investing in Russia and Vietnam.[13] Some multinational companies in Mexico have resorted to hiring private undercover investigators to track down the supply chain for knockoffs.[14]

C. Reasons for the Problem

The root of the problem in many developing countries is twofold: a cultural tradition of not protecting individual intellectual property rights and a lack of self-interest to change. In some countries, like the PRC, the concept of having individual rights in intangibles such as intellectual property is a new one.[15] Moreover, the bulk of intellectual property sought to be protected consists of high technology goods created in foreign developed countries and imported into developing countries. Preventing the domestic production of illegal copies therefore has at least a short-term negative effect on the cost of goods and the viability of local businesses that thrive on pirating.[16] Similarly, eliminating the production of generic drugs that infringe on the patents held by western companies would likely increase the cost of medicines beyond the range that individuals or even governments in some poverty-stricken developing countries could afford.[17] Rigorously protecting intellectual property rights may be viewed as favoring foreign interests over domestic business interests and the welfare of citizens; any government viewed in this light is unlikely to remain in power for very long.

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10. *See* Seth Faison, *Sale of Pirated Films "Out of Control" in China*, N.Y. Times, Mar. 28, 1998 (describing the sale of pirate VCDs of the movie "Titantic" in the PRC before its theatrical release in the U.S.).

11. *See* David K. Tomar, Comment, *A Look into the WTO Pharmaceutical Dispute between the United States and India*, 17 Wis. Int'l L.J. 579, 583–84 (1999) (India's weak patent laws have allowed its generic drug industry to flourish by free-riding off of the ingenuity of western pharmaceutical companies).

12. *See* Nisid Hajari, *Swallowing Bitter Pills; Fake and Adulterated Medicines Are Posing Health Risks Greater than the Diseases They're Meant to Cure*, Time, Jan. 28, 1998 (Africa and Latin America are favorite dumping grounds for fake or adulterated drugs made in India, China, and Pakistan); Peggy E Chaudry & Michael G Walsh, *International Property Rights: Changing Levels of Protection Under GATT, NAFTA and the EU*, Colum. J. World Bus., June 22, 1995, at 80 (citing a World Health Organization report estimating 70% of drugs used in developing countries are fake).

13. *See* Andrew Jack, *Russian Sales of Fake Goods "Costs Dollars 1BN,"* Fin. Times, Feb. 22, 2000, at 14; Gregg Jones, *Reform Inches Along: Foreigners in Business Learn to Wait out Communist Government's Interminable Delays*, Dallas Morning News, Apr. 30, 2000, at 1H (direct foreign investment has decreased from a high of $8.3 billion in 1996 to less than $2 billion in 1999).

14. *See* Jonathan Friedland, *Fighting Fake Merchandise in Mexico is a Difficult Task*, The Arizona Republic, Dec. 3, 1998, at D3.

15. *See* Glen Butterton, *Pirates, Dragons and U.S. Intellectual Property Rights in China: Problems and Prospects of Chinese Enforcement*, 38 Ariz. L Rev. 1081, 1108 (1998).

16. *See* Tomar, *supra* note 11, at 580.

17. *See id.* at 582–83 (recounting India's use of high trade tariff rates and price controls to reduce foreign ownership in pharmaceutical companies as a means of reducing the cost of medications).

For these reasons, many developing countries tend to have weak intellectual property laws and to engage in lax enforcement of those laws. For example, India does not allow product patents for pharmaceuticals, offers a short term of patent protection, and imposes compulsory licensing with an artificially low royalty ceiling.[18] Other countries, such as Mexico, have adopted strong intellectual property laws but are unable or unwilling to enforce those laws.[19] In some countries, local judges lack an understanding of existing intellectual property laws.[20] As a result of police or government corruption or sympathy toward local businesses, many authorities are unwilling to halt and prosecute the open sale of pirated or counterfeit goods.[21] Even when prosecutions occur, civil penalties levied against local infringers are often too small to have a deterring effect.[22] Administrative or procedural inadequacies also create barriers to using intellectual property rights protections that are in place. For example, the opposition or cancellation of well known trademarks is made difficult in the PRC due to the absence of clear procedural laws.[23] India's patent examination and opposition procedures are slow and inefficient.[24]

III. Protecting Intellectual Property Rights

Any company with intellectual property assets that plans to do business in a developing country should first assess (1) domestic intellectual property laws, (2) past records of enforcement, (3) participation in international agreements, and (4) the methods available to protect and enforce their intellectual property rights. There are several resources available to assist in achieving these goals.

A. Resources for Finding International Agreements and Identifying Problem Countries

1. *Private Associations*

There are several associations that monitor U.S. intellectual property interests in developing countries and lobby the U.S. government to intervene at the international level. The

18. *See id.* at 584.

19. *See* Friedland, *supra* note 14 (because the Mexican government has neither the manpower or willingness to prosecute, the rewards of pirating far weigh the risks).

20. *See* Michael Solton, *Enforcing Intellectual Property Rights in Russia Remains Problematical*, Russia and Commonwealth Business Law Report, Jan. 29, 1997 (citing inadequate training and experience of Russian courts to handle complex intellectual property issues, lack of coordination among enforcement agencies, corruption and organized crime as major obstacles to effective enforcement); Butterton, *supra* note 15, at 1101 (citing the technical competence of judges in the PRC as a reason for slack intellectual property law enforcement).

21. *See* Butterton, *supra* note 15, at 1107.

22. *See id.* at 1104 (suggesting that fines for copyright violation ranging from "US $150 to US $11,500 or two to five times the total fixed price of the lost sales of the legitimate product" were not substantial enough or applied broadly enough to act as a deterrent); Chaudry & Walsh, *supra* note 12, at 80 (after successfully halting the illegal local production of its patented and trademarked drugs in Venezuela, Sterling Drug learned that the maximum penalty for infringement amounted to fines up to a maximum of only U.S.$12 and prison terms of 1 to 12 months).

23. *See* 1999 National Estimate on Foreign Trade Barriers, *Report on People's Republic of China*, *available at* www.ustr.gov/reports/nte/1999/china.pdf, at 61–62 (last visited Mar. 13, 2000) (the lack of agents authorized to accept foreign trademark applications deter the registration and the lack of finalized laws on requirements for the use of copyright agents prevents foreign companies from being able to license copyrights).

24. *See* Tomar, *supra* note 11, at 584.

International Intellectual Property Alliance (IIPA) is a Washington-based watch group comprised of seven trade associations; the alliance is primarily interested in copyright-based industries.[25] The IIPA monitors copyright legislation and enforcement in eighty foreign countries and reports its findings and complaints of inadequate protection or enforcement to the U.S. trade representative (USTR). Similarly, the Pharmaceutical Research and Manufactures of America (PhRMA) represents the patent interests of pharmaceutical companies in the United States, by monitoring foreign countries' adherence to international intellectual property agreements and filing reports to with the USTR when deficiencies are found.[26] The International Anti-Counterfeiting Coalition (IACC) plays a similar monitoring and reporting role for the protection of trademarks, service marks, trade dress, trade secrets, and copyrights and patents.[27]

2. *Government Agencies*

a. Trade Compliance Center

The Trade Compliance Center (TCC), operating within the U.S. Department of Commerce, supplies a wealth of information for U.S. companies planning to do business in foreign countries.[28] The TCC provides information about existing trade agreements, prepares market access reports, exporter's guides, and market monitors for nearly every country in the world. A trade-complaint hotline gives businesses a way to expedite the resolving of questions and complaints about intellectual property protection, unfair treatment, or other trade barriers.

b. Office of the U.S. Trade Representative

The USTR develops and coordinates trade policy, negotiates trade agreements, and monitors and investigates unfair foreign trade practices.[29] The USTR has an extensive online library referring to international agreements negotiated and reports issued by the USTR.[30] Particularly noteworthy are the annual trade policy agenda and the annual report, both of which summarize the USTR's enforcement activities.[31] In addition, the annual

25. *See* The International Intellectual Property Alliance, Description of the IIPA, *available at* www.iipa.com/aoutiipa.html (last visited Sept. 14, 2001) [hereinafter IIPA]. The seven member organizations are the: Association of American Publishers, www.publishers.org/; Motion Picture Association of America, www.mpaa.org/; American Film Market Association, www.afma.com/; National Music Publisher's Association, www.nmpa.org/; Business Software Alliance, www.bsa.org/; and Recording Industry Association of America, www.riaa.org/.

26. *See* Pharmaceutical Research and Manufacturers of America, *at* www.phrma.org/ (last visited Apr. 12, 2000); *see also* Submission of the Pharmaceutical Research and Manufactures of America for the "Special 301" Report on Intellectual Property Barriers, *available at* www.phrma.org/issues/nte/nte.html#priority (last modified Feb. 28, 2000) [hereinafter PhRMA Report].

27. *See* The International AntiCounterfeiting Coalition, *About the IIAC, available at* www.ari.net/iacc/#anchor580272 (last visited Apr. 12, 2000).

28. *See* The Trade Compliance Center, U.S. Department of Commerce, www.mac.doc.gov/tcc/index.html (last visited Mar. 16, 2000) [hereinafter TCC].

29. *See* Office of the United States Trade Representative, Mission, *available at* www.ustr.gov/mission/index.html (last visited Mar. 16, 2000).

30. USTR online library, www.ustr.gov/reports/index.html.

31. *See* 2000 TRADE POLICY AGENDA AND 1999 ANNUAL REPORT OF THE PRESIDENT OF THE UNITED STATES ON THE TRADE AGREEMENTS PROGRAM, *available at* www.ustr.gov/reports/tpa/2000/index.html (last visited Apr. 14, 2000) [hereinafter 1999 Report].

national trade estimate identifies countries with significant foreign trade barriers, including inadequacies in intellectual property rights protections.[32]

Section 183 of the Trade Act of 1974 requires the USTR to identify countries with ineffective protection of intellectual property or countries that deny fair market access.[33] Problem countries are classified into one of three categories, depending on the severity of their failure: (1) priority foreign country, (2) priority watch list, or (3) watch list. Priority foreign countries have acts, policies, or practices in the area of intellectual property with the highest likelihood to adversely affect U.S. economic interests and have failed to negotiate in good faith or make significant progress in reforming their laws or their enforcement.[34] Priority watch list countries have negotiated in good faith or made significant progress whereas watch list countries have particular problems in providing protection, enforcement, or market access for persons that rely on intellectual property protections.[35] The publication of these *Special 301* lists serves both to warn foreign countries of the USTR's concerns and impending consultations and to warn U.S. investors that their intellectual property rights may not be adequately protected.[36] The USTR also handles all matters arising within the scope of the World Trade Organization (WTO), including using the WTO's dispute settlement procedures to resolve a member's failure to adhere to agreed on intellectual property protection and enforcement.[37]

B. The TRIPS and the WTO

1. *The Promise of the TRIPS and the WTO*

The WTO was created in 1995 as the result of trade negotiations conducted during the Uruguay round of meetings concerning the General Agreement of Tariffs and Trade (GATT).[38] The WTO is the successor to the GATT but with an expanded role to administer the underlying trade agreements, act as a forum for trade negotiations and settling trade disputes, review national trade policies, help developing countries with trade policy issues, and cooperate with other organizations.[39] Among the multilateral agreements administered by the WTO is the TRIPS.

On January 1, 1995, the TRIPS came into effect, providing protection and enforcement for intellectual property rights, including copyrights, patents, trademarks, trade secrets, geographical indications, industrial designs, and layout designs of integrated circuits.[40] The TRIPS furnishes WTO members with three key features in the areas of standards, enforce-

32. *See generally* The 1999 National Trade Estimate, *available at* www.ustr.gov/html/1999_contents.html (last visited Oct. 10, 2000) (individual reports for over 50 countries examined once every two years) [hereinafter 1999 NTE].

33. *See* 19 U.S.C. § 2242 (1994); 1999 Report, *supra* note 31, at 287–88.

34. *See* 19 U.S.C. § 2242(b)(1).

35. *See* Julia Cheng, Note: *China's Copyright System: Rising to the Spirit of TRIPS Requires an Internal Focus and WTO Membership*, 21 Fordham Int'l L.J. 1941, 1966, 1966 n.168–69; 1999 Report, *supra* note 31, at 285.

36. *See* 1999 Report, *supra* note 31, at 285.

37. *See id.* at 281–82.

38. *See id.* at 27–28.

39. *See* WTO in Brief, *available at* www.wto.org/inbrief/inbr00.htm (last visited Mar. 16, 2000).

40. *See generally* Agreement on Trade-Related Aspects of Intellectual Property Rights, 33 I.L.M. 1197 (1994), *in* General Agreement on Tariffs and Trade: Multilateral Trade Negotiations Final Act Embodying the Results of the Uruguay Round of Trade Negotiations, Apr. 15, 1994, 33 I.L.M. 1125, Annex 1C (1994) [hereinafter TRIPS]; Overview: the TRIPS Agreement, *available at* www.wto.org/english/tratop_e/trips_e/intel2_e.htm (last visited Oct. 10, 2000) [hereinafter Overview].

ment, and dispute settlement and specifies the transitional arrangements for adopting this agreement by all WTO members.

a. Minimum Standards

The TRIPS establishes minimum standards that all members must follow for all substantive areas of intellectual property law. Similar to past agreements, the TRIPS requires national treatment, meaning that each country must treat its own nationals and foreigners from member nations equally.[41] The TRIPS also requires most-favored-nation treatment, meaning that all member nations must be treated the same. The substantive standards that must be met are defined by incorporating existing agreements such as the Paris Convention for the Protection of Industrial Property and the Berne Convention for the Protection of Literary and Artistic Works.[42] The TRIPS also adds standards that these past agreements do not adequately address.[43]

b. Domestic Enforcement

The TRIPS sets minimum standards to which each nation must adhere regarding the enforcement of domestic intellectual property rights.[44] Specific provisions cover civil and administrative procedures and remedies, provisional measures, border enforcement procedures, and criminal procedures.[45] Important civil remedies include requirements that domestic courts have the power to order injunctions, to order a bad-faith infringer to pay adequate damages to the right-holder, and to order the disposal or destruction of infringing goods.[46] Courts must also be able to institute provisional measures giving the intellectual property right-holder relief or preserving evidence during judicial procedures to decide if violations have occurred.[47] At minimum, goods bearing a counterfeit trademark or pirated copyright goods must be subject to border enforcement procedures.[48] Criminal sanctions must include imprisonment or fines sufficient to provide a deterrent and must be applied when there is willful trademark counterfeiting or copyright piracy on a commercial scale.[49]

c. The WTO Dispute Resolution System

The WTO provides the procedure and mechanism to resolve disputes involving violations of any of its trade agreements, including the TRIPS.[50] All members have agreed to

41. *See* Robert Gutowski, Comment, 47 BUFFALO L. REV. 713, 720–21 (examining the history of and deficits in the Paris and Berne Conventions in light of the TRIPS).

42. *See* Paris Convention for the Protection of Industrial Property, July 14, 1967, 21 U.S.T. 1583, 823 U.N.T.S. 305 [hereinafter Paris Convention]; Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, completed Paris, May 4, 1896, revised Berlin, Nov. 13, 1908, 1 L.N.T.S. 217, completed Berne, Mar. 20, 1914, revised Rome, June 2, 1928, 123 L.N.T.S. 233, revised Brussels, June 26, 1948, 331 U.N.T.S. 217, revised Stockholm, July 14, 1967, 828 U.N.T.S. 221, revised Paris, July 24, 1971, S. Treaty Doc. No. 27, 99th Cong., 2d Sess. (1986) [hereinafter Berne Convention]. Both of these agreements are administered by the World Intellectual Property Organization. *See* Text of Treaties Administered by WIPO, *available at* www.wipo.int/eng/iplex/index.htm (last visited Apr. 24, 2000).

43. For example, by requiring patents for inventions, whether products or processes, in *all* fields of technology, without discrimination. *See* TRIPS, *supra* note 40, art. 27(1); Overview, *supra* note 40.

44. *See* TRIPS, *supra* note 40, Part III.

45. *See* Overview, *supra* note 40.

46. *See* TRIPS, *supra* note 40, arts. 44–46.

47. *See id.* art. 50.

48. *See id.* art. 51.

49. *See id.* art. 61.

50. *See* Settling Disputes: The WTO's "most individual contribution," *available at* www.wto.org/english/

use and follow judgments rendered by the WTO's dispute settlement understanding (DSU)[51] rather than taking unilateral action.[52] The WTO's DSU makes two major improvements over the mechanism used by the GATT.[53] First, there is a more structured and disciplined time table for resolving disputes: A dispute running through the entire process, including appellate review, should normally take less than fifteen months.[54] Second, losing parties can no longer block the adoption of a ruling because a consensus is not required.[55]

The dispute resolution process always begins with the parties themselves; consultations must be attempted by the parties in an effort to reach a settlement.[56] If consultations fail, the complainant petitions the WTO's general council, acting as the dispute settlement body (DSB), to appoint a panel of three to five experts to hear the case.[57] Although parties can propose and object to the experts making up the panel, the DSB has final authority in deciding the panel's make up.[58] However, if a controversy involves a developing country, then at least one member of the panel must be from the developing country.[59] Over a three- to six-month period, the panel reviews written reports and hears oral arguments prepared by the complainant, respondent, and third parties; appoints experts to prepare advisory reports; and prepares draft and interim reports that are sent to the parties for review and comment.[60] The panel then circulates a final report to be adopted by the DSB within sixty days.[61] The final report presents the panel's decision on whether a WTO agreement or an obligation was violated and recommends measures that should be taken to resolve the dispute. The DSB rarely rejects the panel's decision because a consensus is required to overturn it.[62] Either party may appeal the panel's ruling on a point of law.[63] Appeals are heard by three members of a seven-member appellate body. Members are appointed by the DSB for a four-year term.[64] Appellate review must be completed within ninety days and the DSB must accept or reject an appeals report within thirty days.[65] To date, appeals reports have rarely been rejected.[66]

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thewto_e/whatis_e/tif_e/disp1_e.htm (last visited Oct. 10, 2000) [hereinafter Settling Disputes], and www.wto.org/english/thewto_e/whatis_e/tif_e/disp2_e.htm (flow chart showing time table for dispute resolution).

51. *See* Understanding on Rules and Procedures Governing the Settlement of Disputes, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization [hereinafter DSU] Annex 2, Legal Instruments—Results of the Uruguay Round vol. 31, 33 I.L.M. 1226 (1994).

52. For example, the DSU stipulates that "[w]hen Members seek the redress of a violation . . . they shall have recourse to, and abide by, the rules and procedures of [the DSU]. . . . Members shall . . . not make a determination to the effect that a violation has occurred . . . except though recourse to [the DSU]." DSU, *supra* note 51, art. 23.

53. *See* Settling Disputes, *supra* note 50.

54. *Id.*

55. *See* DSU, *supra* note 51, art. 16(4); Robert J. Pechman, *Seeking Multilateral Protection for Intellectual Property: The United States "TRIPs" over Special 301*, 7 MINN. J. GLOBAL TRADE 179, 187–88 (1998).

56. *See* DSU, *supra* note 51, art. 4.

57. *See* Settling Disputes, *supra* note 50.

58. *Id.*

59. *See* DSU, *supra* note 51, art. 8(10).

60. *See id.* arts. 10–15.

61. *See id.* arts. 16(4), 17(5).

62. *See id.* art. 16(4).

63. *See id.* art. 17.

64. *See id.*

65. *See id.*

66. *See* Robert E. Hudec, *The New WTO Dispute Settlement Procedure: An Overview of the First Three Years*, 8 MINN. J. GLOBAL TRADE 1, 29–30 (1999) (reviewing the appeal body's decisions through 1998).

The losing party must agree to comply with the panel's or appellate review's recommendations within thirty days of the DSB's adopting of the report. The parties involved are also required to settle on a reasonable period for implementing the panel or appellate body's recommendations.[67] If the losing party fails to fully implement the recommendations within this time, it must negotiate with the complainant and provide the complainant with acceptable compensation.[68] Finally, if mutually agreed-upon compensation is not established within twenty days, the complainant may request permission from the DSB to retaliate by imposing limited same-sector trade sanctions.[69]

d. Transitional Arrangements for Adopting the TRIPS

Different transitional periods apply for developed, developing, and least developed countries.[70] Developed countries were required to comply with all of the TRIPS within one year of its creation: by January 1, 1996.[71] Developing countries had five years to adopt TRIPS provisions (until January 1, 2000), and least developed countries have ten years (until January 1, 2005).[72] In addition, any members whose economies are in transition have five years to adopt the provisions in the TRIPS. Three elements are required to be classed as in transition: (1) the country is transforming from a central-planned enterprise economy to a market-free enterprise economy; (2) the country's intellectual property system is under reform; and (3) the country faces special problems in its reform of intellectual property laws.[73] Also, developing countries that did not previously "extend product patent protection to areas of technology" may delay providing protection for an additional five years until January 1, 2005.[74] All members, however, are required to adopt immediately the general principles of national treatment and most-favored-nation treatment.[75]

Three other provisions have immediate effect. First, a non-backsliding clause prevents countries from reducing their intellectual property rights protections during a transition period.[76] Second, countries must provide a means (that is, a mailbox) by which patents for pharmaceutical and agricultural chemical products may be filed during the transition period.[77] Patent applications in the mailbox do not have to be examined until the developing country adopts the provisions of the TRIPS. Nevertheless, providing a mailbox is important

67. *See* DSU, *supra* note 51, art. 21(3).

68. *See id.* art. 22(2).

69. *See id.* art. 22(3). Initially, sanctions may be applied to the same sector that the violation occurred in; only if this is not effective may sanctions be applied to other sectors. *See id.*

70. *See* Overview, *supra* note 40.

71. *See* TRIPS, *supra* note 40, art. 65(1).

72. *See id.* arts. 65(4), 66. Despite the importance of this designation, the TRIPS itself does not explicitly define or adopt a definition for *developing country* and *least developed country*. *See* Marco C.E.J. Bronckers, *The Impact of TRIPS: Intellectual Property Protection In Developing Countries*, 31 COMMON MKT. L. REV. 1245, 1255–61 (1994). It is noteworthy that the PRC may be classified as a Least-Developed Nation under the World Bank's definition, but not under the United Nation's definition. *See* Cheng, *supra* note 35, at 1950 n.60; *Report on the thirty-first session*, U.N. ESCOR, 31st Sess., Supp. No. 15, at 39, U.N. Doc. E/1997/35 (1997), *available at* www.un.org/esa/documents/ecosoc/docs/1997/e1997-35.htm (current listing of least developed nations).

73. *See* TRIPS, *supra* note 40, art. 65(3).

74. *See id.* art. 65(4).

75. *See id.* arts. 3–4.

76. *See id.* art. 65(5); Overview, *supra* note 40.

77. *See* TRIPS, *supra* note 40, art. 70(8).

because filing a patent application in it triggers the availability of the third provision: exclusive marketing rights for pending patented product even during the transitional period for developing countries.[78] At the end of the transition period, the application must be examined with reference only to prior art that existed at the time the application was filed in the mailbox.[79] If a patent is granted, the patent term is counted from the date the application was filed in the mailbox.[80]

Exclusive marketing rights during the transition period, which are a form of pipeline protection for product patents, are an important concession the TRIPS confers to developed countries.[81] If a product that is the subject of a patent application in the mailbox receives government approval for market use, then exclusive marketing rights must be given for up to five years or until the patent application is rejected or approved. Exclusive marketing rights during the transition period, however, are subject to the safeguard provision that another member has already granted the patent and given marketing approval for the product.[82]

2. Problems with the TRIPS and the WTO

a. Developing Countries Will Resist Implementing the TRIPS

There are several reasons why developing countries will resist incorporating the TRIPS's minimum standards into their domestic laws. Most intellectual property belongs to foreigners; therefore, enforcing TRIPS provisions leads to a transfer of wealth from developing to developed countries.[83] Furthermore, enforcing TRIPS negatively impacts domestic businesses that thrived in the past because they were able to steal intellectual property from others.[84] TRIPS also impinges on the sovereign rights of countries to develop independent of foreign influence.[85] Finally, although individual ownership of intellectual property is seen as a basic right in western developed countries, this may not be the case in some developing countries.[86]

There is also the practical problem of inadequate administrative personnel to ensure the timely and reasonable acquisition and registration of intellectual property rights.[87] Many government intellectual property offices in developing countries are under-funded and have insufficient numbers of trained staff to do a proper technical analysis of patent appli-

78. *See id.* art. 70(9).

79. *See id.* art. 70(8).

80. *See id.*

81. *See* John E. Giust, *Noncompliance with TRIPS by Developed and Developing Countries: Is TRIPS Working?* 8 IND. INT'L & COMP. L. REV. 69, 79 (1997).

82. *See id.*

83. *See* Frederick M. Abbott, Symposium on Global Competition and Public Policy in an Era of Technological Integration, *The New Global Technology Regime: The WTO TRIPS Agreement and Global Economic Development*, 72 CHI.-KENT L. REV. 385, 387 (1996).

84. *See* Cheng, *supra* note 35, at 1979–80 (discussing internal pressures against enforcing the PRC's copyright laws).

85. *See* Gutowski, *supra* note 41, at 745–46.

86. *See id.* at 747–48 & 748 nn. 186–91 (reviewing studies showing the tendency of indigenous people to practice collective ownership of intellectual property); Doris Estelle Long, *The Impact of Foreign Investment on Indigenous Culture: An Intellectual Property Perspective*, 23 N.C. J. INT'L L. & COM. REG. 229, 279–80 (arguing for expanding the use of intellectual property right to protect indigenous cultural property).

87. *See* Robert M. Sherwood, *The TRIPS Agreement: Implications for Developing Countries*, 37 IDEA 491, 515 (1997) (developing countries will have increased administrative burdens to comply with TRIPS article 62).

cations.[88] The growing backlog of patents mail-boxed during the transition period only exacerbates a developing country's problems.[89]

The main theoretical argument in favor of adopting strong intellectual property laws in developing countries is that it spurs economic development,[90] though logical evidence supporting this idea is not dispositive.[91] Nevertheless, many developing countries may increase their protection of intellectual property if for no other reason than that a lack of protection has done little to promote development.[92] In some countries like the PRC, it may be more palatable for the incumbent government to reform intellectual property rights than to initiate political reform.[93]

A strong practical argument favoring the adoption of the TRIPS by developing countries is that the agreement was part of a package deal offering several other benefits to those countries. For example, the European Community reduced its subsidies to domestic farmers, thereby making agricultural products exported from developing countries more competitive.[94] Similarly, the phase-out of import quotas on textile products and tropical products benefited developing countries.[95] Moreover, the five- and eleven-year transitional arrangements reduce any immediate short-term hardships that incorporating the TRIPS into domestic laws might cause.[96] Finally, the mandatory use of the WTO's dispute settlement system forecloses the use of unilateral trade sanctions by the United States or other developed nations to force developing countries to adopt higher standards of intellectual property protection and enforcement.[97] These advantages will probably not foreclose certain groups from lobbying for the minimal or delayed adoption of the TRIPS.

b. The TRIPS Has Ambiguities and Exceptions that Developing Countries May Use to Their Advantage

The TRIPS has enough ambiguities and exceptions to allow developing countries to interpret the agreement in a manner that best suits their short-term needs.[98] For example, the TRIPS allows nations to deny protection to intellectual property rights in the interest of protecting the health and safety of its citizens—thus presenting a large loophole through

88. *See id.* at 523–28 (Pakistan has only four patent examiners for the entire country; Ecuador's patent office hires science professors to examine patents, without obligating those individuals to keep the application in confidence).

89. *See id.* at 524–25.

90. *See* Abbot, *supra* note 83, at 390.

91. *See id.* at 390–91, 390 nn.7–18 (a United Nations sponsored study found no correlation between levels of intellectual property rights protections and foreign investment); Gutowski, *supra* note 41, at 751 (reviewing studies concluding that economic and political reform, not intellectual rights protection, lead to the economic success of Taiwan, Hong Kong, South Korea, and Singapore). *But see* Sherwood, *supra* note 87, at 506–07 (citing studies by the World Bank showing that the a developing country's intellectual property protection has a significant effect on technology transfer and direct investment into the country).

92. *See* Gutowski, *supra* note 41, at 752.

93. *See id.*

94. *See* Abbot, *supra* note 83, at 387.

95. *See id.*

96. *See id.* at 388.

97. *See* Nicole Telecki, *The Role of Special 301 in the Development of International Protection of Intellectual Property Rights after the Uruguay Round*, 14 B.U. INT'L L.J. 187 (1996) (concluding that the United States has obligated itself to use the DSU and to not engage in unilateral trade sanctions).

98. *See* Reichman & Lange, *supra* note 1, at 20–22 (1998).

which developing countries can maintain trade barriers in the pharmaceutical industry.[99] In addition, as a concession to developing countries, the TRIPS gives countries substantial discretion to grant compulsory licenses to remedy anti-competitive abuses of intellectual property rights.[100]

The minimum standards for the domestic enforcement of the substantive rights incorporated into the TRIPS have also been criticized as weak because they merely provide broad legal standards and mandate respect for differences in national legal systems—rather than present a set of narrow well defined rules.[101] For example, the TRIPS expressly waives any requirement for WTO members to "put in place a judicial system for the enforcement of intellectual property rights distinct from that [used] for the enforcement of law in general."[102] Thus, if law enforcement in a developing country is inherently weak, one cannot expect the TRIPS to mandate a higher level of enforcement.[103]

Although purporting to harmonize intellectual property rights by holding all WTO members to the same standards, the transitional arrangements built into the TRIPS contain the means to perpetuate a two-tiered system.[104] The TRIPS expressly allows extensions of the eleven-year transition period for least developed countries if they have "special needs and requirements . . . and [the] need . . . to create a viable technological base."[105] The TRIPS may also implicitly provide a means by which developing countries may get an extension beyond the five-year transition, which ended on January 1, 2000.[106]

c. Problems with Using the Dispute Settlement System to Enforce the TRIPS

The WTO implicitly contemplates a top-down theory of enforcement, in which domestic implementation and enforcement of the TRIPS by developing countries is compelled by government-to-government pressure and litigation within the confines of the DSU.[107] This is illustrated by the fact that the DSU only provides for dispute resolution between governments; a private party directly affected by a government's inadequate or unfair treatment has no standing with the WTO's DSB.[108] Thus, if adequate redress from a foreign national court is not found, a private party must convince their government that their violation is worthy of being pursued.[109] This does have the beneficial effects of creating a gatekeeper mechanism to stem excessive litigation, encouraging public-private cooperation and decreasing the amount of money and time the government spends on preparing a case.[110] This

99. *See* Timothy G. Ackermann, *Dis'ordre'lyLoopholes: TRIPs Patent Protection, GATT, and the ECJ*, 32 TEX. INT'L L.J. 489, 510 (1997).

100. *See* TRIPS, *supra* note 40, art. 31(k)–(l); Abbot, *supra* note 83, at 400.

101. *See* Reichman & Lange, *supra* note 1, at 35.

102. *See* TRIPS, *supra* note 40, art. 41(5).

103. *See* Reichman & Lange, *supra* note 1, at 35, 36 n.129 (citing by way of example, Thailand's corrupt legal system as the reason for inadequate intellectual property rights protection).

104. *Id.* at 41–42.

105. *See* TRIPS, *supra* note 40, art. 66(1).

106. *See* Reichman & Lange, *supra* note 1, at 42–43 (suggesting that developing countries will petition the TRIPS council for an extension on the grounds that supervening events or changed conditions have prevented them from transferring and disseminating technology and promoting the public interest in sectors of vital importance to development, as guaranteed in TRIPS arts. 7 and 8(1)).

107. *See* Reichman & Lange, *supra* note 1, at 13–14.

108. *See* Judith H. Bello, *Some Practical Observations about WTO Settlement of Intellectual Property Disputes*, 37 VA. J. INT'L L. 357, 358 (1997).

109. *See id.*

110. *See id.* at 360–61.

also makes litigation less likely for small violations, violations effecting only one company, or violations in a narrow sector of the economy. In the United States, government attorneys in the office of the USTR are accountable to the president and subject to congressional oversight. This, in turn, will make the USTR reluctant to take on cases that are not clearly winnable and more likely to take the administration's political agenda into account when deciding whether to prosecute.[111] Finally, the inherent ambiguities in the substantive and enforcement standards in the TRIPS will make it difficult for developed countries to prove that a violation has occurred or to predict what the outcome of litigation will be.[112]

d. Developing Countries Using the DSU May Be Represented by Private Counsel

The expense and expertise needed to file and argue a dispute with the WTO may make developing countries less likely to use the system. The WTO's DSU does not rule out, however, the ability of countries to invite private counsel to represent them in a dispute.[113] On one hand, representation by private counsel may provide the only means by which developing countries with limited resources and expertise can afford to avail themselves of the WTO dispute resolution mechanism.[114] Private counsel may also allow the private sector whose commercial interests are most affected by a WTO decision to obtain the best possible representation,[115] but a private counsel's allegiance to a particular trade sector also has a downside. Namely, private counsel may not have the interest or independence to negotiate a settlement that is in the best interests of a country as a whole.[116] There is also the difficult issue of choosing among counselors representing different trades that would be affected by the dispute at hand.[117]

C. The North American Free Trade Agreement

It is not surprising that many of the intellectual property rights provisions in the NAFTA and those in the TRIPS are similar. Both agreements were negotiated at the same time and involved many of the same representatives from Canada, Mexico, and the United States.[118] Like the WTO family of agreements, the NAFTA provides a formal dispute resolution mechanism for investments, financial services, applying and interpreting the agreement, and appealing unfair trade actions.[119] This creates a unique situation in which the three

111. *See id.* at 359; Reichman & Lange, *supra* note 1, at 48.

112. *See* Reichman & Lange, *supra* note 1, at 35.

113. *See* Jessica C. Pearlman, Note, *Participation By Private Counsel in World Trade Organization Dispute Settlement Proceedings*, 30 Law & Pol'y Int'l Bus. 399, 404 (1999) (reviewing the WTO appellate body's decision to allow Saint Lucia to be represented by private counsel in a bananas dispute).

114. *See id.* at 406.

115. *See id.* at 412.

116. *See id.* at 413–14.

117. *See id.*

118. *See* Joseph S. Papovich, *NAFTA's Provisions Regarding Intellectual Property: Are They Working as Intended?* 23 Can.-U.S. L.J. 253, 254–55 (1997) (the same individuals negotiated these agreements on behalf of the parties); Ron J.T. Corbett, *The Impact of the NAFTA and TRIPS Agreement on Intellectual Property Rights Protections in Canada and the United States*, __ NAFTA L. & Bus. Rev. Am. *passim (accepted for publication)* (comparing the intellectual property rights of selected provisions in the NAFTA's chapter 17 and the WTO's TRIPS agreement).

119. *See* David A. Gantz, *Dispute Settlement under the NAFTA and the WTO: Choice of Forum Opportunities and Risks for the NAFTA Parties*, 14 Am. U. Int'l L. Rev. 1025, 1030 (comparing NAFTA's and the WTO's dispute resolution systems).

member countries and in some cases private individuals may forum shop in order to exploit procedural differences in the dispute settlement systems.[120]

One notable difference between the TRIPS and the NAFTA is the latter's chapter 11 provisions protecting private investors.[121] Notably, the NAFTA's definition of an investment includes intellectual property, thereby adding an important facet to intellectual rights protection for private companies.[122] Under the NAFTA, private parties are allowed compensation when their investment has been "expropriated" by member states.[123] Importantly, individual investors may bring states to binding international arbitration.[124] Compensation is required even if the expropriation is for a public purpose, nondiscriminatory, applied with due process of law, and in accord with international law.[125] An exception to compensation is allowed, however, for compulsory licenses related to intellectual property rights or the revocation, limitation, or creation of intellectual property rights that are consistent with the NAFTA's substantive intellectual property rights in chapter 17.[126]

IV. Enforcing Rights

A. Enforcing the TRIPS Using the WTO Dispute Settlement Mechanism

Because of its youth and the transitional period extended to developing and least developed countries, the enforcement of intellectual property rights using the WTO's DSU is relatively untested. Only one case—a dispute between the United States and India that concerned India's implementation of the mailbox rule—has been adjudicated. Nevertheless, this case provides insight into the questionable effectiveness of the WTO's dispute resolution mechanism and the problem of enforcement.

One commentator has characterized the United States' behavior toward India during the mailbox dispute as that of a devilish schoolyard bully collecting lunch money from weaker students,[127] but the slow pace of change in India's patent laws to date suggests a different analogy: the gullible American farm boy buying snake oil and empty promises from a wily huckster.

The piracy of pharmaceuticals patented in other countries is widely practiced by India's strong generic drug industry because its domestic patent laws provide virtually no protec-

120. *See id.* at 1106.

121. *See generally* North American Free Trade Agreement, drafted Aug. 12, 1992, revised Sept. 6, 1992, U.S.-Can.-Mex., 32 I.L.M. 289, 297 (entered into force Jan. 1, 1997), Chapter 11 [hereinafter NAFTA].

122. Investments are defined as "real . . . or other property, tangible or intangible, acquired in the expectation or used for the purpose of economic benefit or other business purposes." *Id.* art. 1139.

123. *See* NAFTA, *supra* note 121, art. 1110; Allen Z. Hertz, *NAFTA Revisited: Shaping the Trident: Intellectual Property Under NAFTA, Investment Protection Agreements and at the World Trade Organization*, 23 Can.-U.S. L.J. 261, 299 (noting that the NAFTA does not define expropriation).

124. *See* NAFTA, *supra* note 121, arts. 1115–38; Hertz, *supra* note 123, at 267.

125. *See* NAFTA, *supra* note 121, arts. 1105(1), 1110(1); Hertz, *supra* note 123, at 298 (NAFTA's compensation clause is broader than that normally seen under international law).

126. *See* NAFTA, *supra* note 121, art. 1110(7); Hertz, *supra* note 123, at 301 (suggesting that article 1110(7) was added to cover situations like the revocation of patents due to misuse, and limiting a copyright owner's right to control the exclusive right to monopolize the reduction and translation of computer software).

127. *See* Tomar, *supra* note 11, at 579.

tion.[128] For example, process patents are limited to seven years from the date of filing—a time shorter than that usually needed to obtain marketing approval for a product.[129] Food and drug product patents are subject to compulsory licensing, and biotechnological processes or products for treating humans, animals, or plants are not patentable.[130] When India joined the WTO as a founding member in 1995, its developing country status provided it with a five-year transition period to adopt most of the provisions in the TRIPS except for certain items like the mailbox provision and exclusive market rights, whose implementation was required within one year of India's membership.[131]

After consultations failed, the USTR filed a complaint with the WTO in November 1996 for India's failure to implement a mailbox system and grant exclusive market rights to patent applicants.[132] In October 1997, a WTO panel ruled that India was in violation of the TRIPS, and in December, an appellate body affirmed the panel's findings.[133] In April 1998, India indicated that it would follow the DSB's order to comply with the panel's instructions to pass legislation adopting the TRIPS's mailbox provision.[134] The United States and India reached an agreement, which set April 15, 1999, as the deadline for India's compliance.[135] India's Upper House of Parliament passed TRIPS compliant legislation in December 1998, but the Lower House failed to pass the legislation.[136] A subsequent emergency temporary measure purporting to comply with the TRIPS's mailbox provision was passed in March 1999.[137] The PhRMA, however, has voiced frustration with India's continued failure to provide exclusive marketing rights and requested that India be designated a priority foreign country by the USTR.[138]

Although the bulk of India's remaining obligations under the TRIPS were due at the end of the first transition period (January 1, 2000), the Indian government only recently put forward legislation late in 1999; as of March 2000, the Bill is still under review.[139] In addition, India announced its intention to use the five-year extension allowed under the TRIPS for the protection of product patents, extending the deadline for compliance to January 2005.[140] Meanwhile, the backlog of unprocessed patent applications in India's patent office is estimated at 30,000 and growing.[141]

128. *See* George K. Foster, Comment: *Opposing Forces in a Revolution in International Patent Protection: The U.S. and India in the Uruguay Round and Its Aftermath*, 3 UCLA J. INT'L L. & FOR. AFF. 283, 306–07 (1998); Tomar, *supra* note 11, at 583–84.

129. *See* 1999 NTE, *supra* note 32, *India, Lack of Intellectual Property Protection*, www.ustr.gov/reports/nte/1999/india.pdf, pp. 180–182.

130. *See id.*

131. *See id.*; Foster, *supra* note 128, at 295.

132. *See* Foster, *supra* note 128, at 312; *Report to Congress on Section 301 Developments Required by Section 309(a)(3) of the Trade Act of 1974 (June 1996 – January 1998), available at* www.ustr.gov/pdf/sec301.pdf, at 11–12 (last visited Mar. 6, 2000) [hereinafter Report to Congress].

133. *See* Report to Congress, *supra* note 132, at 12.

134. *See id.*

135. *See* Tomar, *supra* note 11, at 589.

136. *See id.* at 590.

137. *See id.*; *Bill to change patent laws in India introduced in parliament*, AGENCE FRANCE PRESSE, Dec. 20, 1999.

138. *See* PhRMA Report, *supra* note 26, *Priority Foreign Countries: India, available at* www.phrma.org/policy/aroundworld/special301/india.phtml.

139. *See id.*

140. *See id.*; *India Complies on Patents Laws*, FIN. TIMES (London), Mar. 11, 1999.

141. *See* PhRMA Report, *supra* note 26, *Priority Foreign Countries: India*, www.phrma.org/policy/aroundworld/special301/india.phtml (suggesting that given the present output by India's patent office, these patents would not be examined for at least 10 years).

B. PRIVATE INVESTOR'S RIGHTS ENFORCEMENT UNDER NAFTA

The NAFTA's article 1110 has the potential to serve as a powerful mechanism by which private companies may protect their intellectual property rights from expropriation by foreign governments. Although not widely used so far, two classes of disputes illustrate how this may transpire in the future.

1. *The Plain Cigarette Packaging Dispute*

In 1994, the Canadian government expressed its intent to enforce plain packaging for cigarettes as a means to decrease cigarette consumption.[142] This prompted RJR Reynolds Holdings Corp. and Philip Morris International to appear before Canada's standing committee on health, arguing that had a plain packaging law been passed, the Canadian government would have been violating article 1110 of the NAFTA.[143] The tobacco companies maintained that plain packaging would be an expropriation of each company's investment in its trademarks, which was inconsistent with the NAFTA's substantive trademark provisions.[144] Despite a Health Ministry report concluding that generic packaging would have noticeable impact on the reduction of smoking, Canada put its plans to introduce legislature on hold.[145]

2. *The Gasoline Additive Dispute*

The NAFTA's expropriation provision has also been used by private companies to oppose government bans on gasoline additives. Citing environmental and public health concerns, the Canadian Parliament passed a bill banning the importation of the gasoline octane booster MMT.[146] In response, Ethyl Corporation, the sole North American supplier of MMT, filed a lawsuit against the Canadian government, arguing that the ban breached the NAFTA's article 1110 because the ban had the effect of expropriating foreign-owned property, including its goodwill.[147] Rather than risk losing in binding arbitration before a NAFTA panel, Canada settled by canceling the ban and paying Ethyl Corporation $13 million in settlement fees.[148] S.D. Myers Corporation has filed a similar expropriation-based

142. *See* David Schneiderman, *NAFTA's Taking Rule: American Constitutionalism Comes to Canada*, 46 U. TORONTO L.J. 499, 525 (1996).

143. *See id.*

144. *See* NAFTA, *supra* note 121, art. 1708(10) "A party may not encumber . . . a trademark . . . by special requirements . . . that reduces trademark's function—plain packaging encumbers by prohibiting their use altogether." Schneiderman, *supra* note 142, at 525 n.148–51 (citing the testimony of Carla Hills, former U.S. Trade Representative, to the Standing Committee on Health, and hired by the Tobacco Companies as a consultant). *But see* Hertz, *supra* note 123, at 303 (arguing that plain-packaging might fall under the exception for compensating intellectual property rights in article 1110(7) or is justified under article 1708(12) as a limited exception to the rights conferred by trademark).

145. *See* Roland Balssnig, *Canada Shelves Plan on Cigarette Packaging*, THE BUFFALO NEWS, May 22, 1995, at 4.

146. Methylcyclopentadienyl Manganese Tricarbonyl. *See* William Crane, *Corporations Swallowing Nations: The OEDC and the Multilateral Agreement on Investment*, 9 COLO. J. INT'L ENVTL. L. & POL'Y 429, 449–53 (1998) (raising concerns that the Multilateral Agreement on Investment, prepared by the Organization for Economic Cooperation and Development, has expropriation provision that are modeled after the NAFTA).

147. *See* Robert Weissman, *Expropriation Madness (Ethyl Corp.'s lawsuit against Canada)*, 19 MULTINATIONAL MONITOR 6 (1998), *available in* 1998 WL 12638839.

148. *See* Heather Scoffield, *Ottawa Knew It Was Likely Violating NAFTA with PCB Ban, Documents Show*, THE GLOBE AND MAIL, Oct. 30, 1998, at B3.

lawsuit concerning Canada's temporary PCB export ban, made because of concerns that PCB's were not being handled safely.[149] Not to be outdone by the Americans, Canadian corporation Methanex has filed a lawsuit against the State of California, based on the theory that the state's plan to phase out the use of MTBE, another gas additive, violates article 1110.[150] There is no reason why similar litigation could not be used for other kinds of intellectual property rights taken by virtue of an administrative actions or laws approved by the government as long as the taking is inconsistent with the NAFTA's substantive intellectual property provisions.

C. Unilateral U.S. Actions under Special 301

1. *The Scope and Authority of Special 301*

The Omnibus Trade and Competitiveness Act of 1988 gives the USTR authority to take action against foreign unfair trade practices.[151] Special 301 allows private individuals to petition the USTR to investigate and take action against foreign government policy or practice.[152] Alternatively, the USTR may initiate an investigation.[153] An investigation always begins with a consultation with the foreign government. If the consultation is not successful, then Special 301 requires the USTR to use whatever dispute settlement procedures are provided under existing trade agreements with the foreign party.[154] Special 301 obligates the USTR to determine if a foreign party's policy or practice violates an existing trade agreement or otherwise poses an unjustifiable burden or restriction on U.S. commerce and to take action if necessary.[155] The USTR has the authority to suspend trade concessions, impose duties or other import restrictions, impose fees or restrictions on services, enter agreements to eliminate the practice and provide compensation to the United States, and restrict service sector authorizations.[156] On completion of an investigation, the USTR must monitor either the foreign country's implementation of the settlement agreed to or the WTO dispute panel recommendations and must take further action if there is a failure to implement the agreement.[157]

2. *Using Special 301 against Brazil*

Special 301 has been used to motivate foreign countries to amend their domestic laws to strengthen the protection of intellectual property rights. For example, the introduction of laws to increase the patent protection of pharmaceuticals in Brazil stemmed largely from the temporary imposition and threat of renewed trade sanctions made by the USTR.[158]

149. *See id.*

150. *See* Editorial, *A New Role for a Trade Deal: NAFTA's Creators Never Expected It Would Be Used Like This*, The Globe and Mail, June 18, 1999, at A12.

151. *See* 19 U.S.C.S. § 2411–14 (1998) (originally § 301–04 in the proposed bill); Pub. L. No. 1301–03, 102 Stat. 1164–74, 1179–81 (1988) [hereinafter Special 301].

152. *See* 19 U.S.C.S. § 2412(a); 1999 Report, *supra* note 31, at 284–85 (illustrating trade enforcement activities of the USTR).

153. *See* 19 U.S.C.S. § 2412(b).

154. *See id.* § 2413(a)(2).

155. *See id.* § 2414.

156. *See id.* § 2411(c).

157. *See id.* § 2414.

158. *See* Pechman, *supra* note 55, at 198.

Responding to complaints from the Pharmaceutical Manufacturers Association, the USTR initiated consultations with Brazil in 1987.[159] When Brazil refused to negotiate, the USTR imposed tariffs against Brazilian exports, and the United States effectively blocked the formation of a panel to investigate the illegality of the imposed barrier under the GATT because a consensus was required before investigations could be started. As is typical for many Special 301 actions, what followed were nearly a decade of promises made by Brazil to introduce legislation to strengthen its patent laws, the subsequent lifting of trade sanctions by the USTR, Brazil's failure to implement legislation, and the USTR's threats to re-impose sanctions.[160] Finally, in April 1996, the Brazilian Congress passed laws providing product patent protection for pharmaceuticals, resulting in the USTR switching Brazil from a priority foreign country to a watch list country.[161] The USTR continues to monitor Brazil for intellectual property rights law reforms in computer software, copyrights, semiconductor mask works, and patent protection for plant varieties.[162] However, now that Brazil is a WTO member, the USTR can no longer follow through on its threats to impose unilateral trade sanctions as it did in the 1980s.[163]

3. *The Legality of Special 301 in Light of the WTO and the TRIPS*

Although Special 301 may have played a critical role in initiating a DSU in the WTO agreements,[164] the legality of unilaterally imposed sanctions under Special 301 on WTO members today is questionable.[165] Like all members, the United States is obligated to use the WTO's dispute settlement mechanism and may not make unilateral decisions concerning trade retaliation.[166] In addition, the broad scope of trade sanctions previously allowed under Special 301 is inconsistent with the TRIPS's proscribed scope of remedies.[167]

In response to the signing of the TRIPS, Congress amended Special 301 to require the USTR to first refer any potential violations to the WTO's DSB.[168] Thus, for members of the WTO, Special 301 is now simply to be used by the USTR as a mechanism to identify countries whose laws or enforcement does not adhere to the TRIPS.[169] In addition, Special 301 sanctions may be invoked only after a DSU ruling is made in the United States' favor, the party subject to the ruling has refused to comply, and the DSU has given the United States permission to impose limited same-sector trade sanctions.[170] Thus, the scope of sanctions allowed under Special 301 against developing countries to comply with the TRIPS during the transition period has been strongly curtailed.[171]

159. *See id.* at 198–99.

160. *See id.*

161. *See id.* at 200.

162. *See* 1999 NTE, *supra* note 32, *Brazil, available at* www.ustr.gov/pdf/1999_brazil.pdf, at 25–26 (Lack of Intellectual Property Protection).

163. *See* Pechman, *supra* note 55, at 200.

164. *See* Hudec, *supra* note 66, at 13 (suggesting that it was the threat of unilateral trade sanction that pushed other members of the GATT to agree to be bound by WTO sispute settlement panel decisions).

165. *See* Pechman, *supra* note 55, at 202–03; Telecki, *supra* note 97, at 220–22.

166. *See* Pechman, *supra* note 55, at 204.

167. *See id.*

168. *See id.*

169. *See id* at 203.

170. *See id.* (a limitation imposed by DSU art. 22). Only after same-sector sanctions are determined to be not practicable or effective, may sanctions in other sectors be considered. DSU, *supra* note 51, art. 22.3.

171. *See* Pechman, *supra* note 55, at 203.

4. *The Use of Special 301 against the PRC*

The limitations imposed on Special 301 with respect to WTO members do not apply to non-members, like the PRC. Throughout the 1990s, the USTR used the threat of trade sanctions under the authority of Special 301 to persuade the PRC to reform its intellectual property laws and strengthen the enforcement of existing laws.[172] For example, in 1991, in response to complaints filed by U.S. businesses about the piracy of software and other copyrighted works, the USTR placed the PRC on its priority foreign country list.[173] The threat of trade sanctions persuaded the PRC to amend its copyright laws to meet the Berne Convention's standard for protecting software as literary works and to adopt the Geneva Phonograph Convention.[174] The PRCs lax enforcement of its new laws led the USTR to re-list the PRC as a priority foreign country in 1995 and again to threaten trade sanctions. This re-listing resulted in a second agreement announcing enhanced enforcement of the PRC's existing laws hours before trade sanctions on Chinese imports were to begin.[175] When the PRC did not follow through on its promises, the USTR raised the threat of sanctions a third time, and again another agreement was made, this time with the PRC essentially just reiterating its promise to step up enforcement activities.[176]

Despite these frustrations and setbacks, the United States' threat of unilateral trade sanctions prompted the PRC to strengthen its intellectual property laws and increase its enforcement activities. For example, the Chinese government reports that from 1994 to 1998, they increased their border enforcement against the illegal importation of infringing goods from Hong Kong and Macau, seized 35 million illegal audio-visual products and 20 million smuggled video-CDs, and shut down or fined seventy-four assembly plants making pirate video-CDs.[177] In addition, the PRC has improved its legal infrastructure by training judges and law students in intellectual property law and by establishing a state intellectual property office to coordinate protection efforts.[178]

These measures still pale in the face of continuing counterfeiting and piracy, estimated to exceed $2 billion per year and account for 15 to 20 percent of total sales in the PRC.[179] Illegal imports continue to flow into the country at an alarming rate.[180] The USTR remains concerned that the penalties imposed by Chinese courts do not act as a deterrent

172. *See* June Cohan Lazar, *Protecting, Ideas and Ideals: Copyright Law in the People's Republic of China*, 27 LAW & POL'Y INT'L BUS. 1185, 1188–91 (1996) (USTR's threats of trade sanctions in 1992, 1995, and 1996 were mainly in response to China's lax enforcement of its intellectual property laws).

173. *See id.* at 1196.

174. *See* Cheng, *supra* note 35, at 1967 (reviewing the provisions of The 1992 Memorandum of Understanding on the Protection of Intellectual Property); TCC, *supra* note 28, CHINA: 1999 COUNTRY COMMERCIAL GUIDE, Part IV.F. (report on intellectual property), *available at* www.mac.doc.gov/TCC/DATA/index_reports.html (last visited Mar. 16, 2000).

175. *See* Cheng, *supra* note 35, at 1970 (reviewing the 1995 China-United States Agreement Regarding Intellectual Property Rights).

176. *See id.* at 1976 (reviewing the 1996 U.S.-China Agreement on Protection of Intellectual Property Rights).

177. *See* 1999 NTE, *supra* note 32, *People's Republic of China: Lack of Intellectual Property Protection*, *available at* www.ustr.gov/reports/nte/1999/china.pdf, at 61–62.

178. *See id.*

179. *See* IIPA, *supra* note 25, *Estimated Trade Losses Due To Piracy* (Mar. 12, 2000 draft), *available at* www.iipa.com/html/piracy_losses.html.

180. *See* Faison, *supra* note 10.

against infringement.[181] There are also concerns that the PRC has no reliable mechanism to enforce international intellectual property agreements at the provincial level or in state-owned businesses.[182] Nevertheless, the European Union and the U.S. Congress have signaled that the PRC's membership may be imminent.[183]

V. Conclusion: Are International Intellectual Property Law Agreements Effective?

A. A Pessimist's View

Viewed pessimistically, the TRIPS simply gave developing and least developed countries a five- to ten-year reprieve from threats of unilateral sanctions previously allowed under Special 301. For over eighty developing countries, the transition period ended on December 31, 2000, and those countries are now obligated to be in compliance with the TRIPS.[184] Nevertheless, few of these countries actually have effective enforcement mechanisms in place.[185] To avoid arbitration under the WTO's DSU, these countries may request extensions,[186] show slight progress towards compliance, or both. If a dispute is heard, a DSU process takes one to two years to play out, and even if a losing developing county does nothing to comply with a DSB's ruling, the initial series of same-sector sanctions (for example, tariffs on the export of copyrighted goods for failure to protect or enforce copyright laws) will have little effect on forcing compliance.

India provides an example of an effective strategy on the part of developing countries to exploit the benefits of WTO membership while paying nothing in return except the promise to comply with the TRIPS some time in the future. By refusing to change its laws or by changing its laws but then not enforcing them, India has so far avoided the imposition of trade sanctions from the DSU. As a WTO member, India is free from the threat of unilateral trade sanctions from the United States under Special 301. In the meantime, India enjoys the benefit of exporting goods to developed countries with little or no trade barriers imposed. Based on the experience with India over the past five years, it would not be surprising to see the same pattern of behavior from the PRC when it becomes a WTO member.

The transition period given to developing countries has arguably only served to increase developed countries' dependency on cheap foreign goods as local companies go out of business because of their inability to make competitive goods due to higher labor costs. As developed countries become more dependent on foreign goods, it will become less desirable

181. *See* 1999 NTE, *supra* note 32, People's Republic of China: Lack of Intellectual Property Protection, *available at* www.ustr.gov/reports/nte/1999/china.pdf, at 61–62.

182. *See* Greg Mastel, *Enter China*, The Wash. Post, Jan. 4, 2000 (arguing against allowing China to become a WTO member).

183. *See Chinese Trade Minister Says Work needed to Reap Benefits from WTO*, Agence France Presse, June 16, 2000, *available at* 2000 WL 2816147 (European Union signing a bilateral pack on Chinese WTO accession and U.S. Congress's passing the China trade bill).

184. *See* IIPA, *supra* note 25, TRIPS implementation, fighting pirate optical media production, and pressing for government legalization of software, IIPA new file (Apr. 30, 1999), www.iipa.com.

185. *See id.* (noting that the USTR will conduct out-of-cycle reviews of TRIPS compliance for these countries).

186. For example, the Indonesian government has already notified the WTO that it will be unable to fulfill its obligations under TRIPS by January 1, 2000. *See Indonesia Admits Failure in Implementing WTO Commitments*, The Jakarta Post, Dec. 22, 1999.

for them to actually follow through on threats of trade sanctions either unilaterally or through the WTO. In particular, unilateral sanctions from one country are increasingly less effective as developing countries forge strong export ties with several different developed countries. The WTO does not have authority to require that all its members impose sanctions on a country that is not in compliance with one of its rulings; only the country bringing the complaint is permitted to impose sanctions.

B. An Optimist's View

The WTO's top-down approach to intellectual property law reform may well be fraught with delays due to the loopholes and ambiguities within the TRIPS and presents a more limited threat of sanctions. However, setting minimum standards and providing an international dispute resolution mechanism by an international body is more efficient than each country's attempting to settle its disputes individually. In a global market place, global business standards are needed to provide certainty for the transnational corporations occupying the field.

As the United States' experience with Brazil and the PRC shows, the former system of monitoring, negotiating, and making repeated threats of unilateral trade sanctions was not very efficient either. Special 301 might still be an effective tool to promote change; however, if U.S. businesses take the USTR's priority-foreign-country and priority-watch-list classifications seriously, losing foreign investment dollars may still have a strong influence on improving domestic laws and enforcement.

C. Synthesis

The TRIPS and the WTO may represent merely a transitional means for creating domestic self-interest in protecting and enforcing intellectual property laws in developing countries. Ultimately what is needed is a bottom-up approach in which the benefits that intellectual property rights confer to domestic companies produce sufficient internal pressures for local governments and courts to enforce the law to the same levels as in developed countries. Standing in the way of this approach is the potential for short-term harm to the public and lobbies from local businesses presently benefiting from intellectual property theft. External pressures brought from the WTO, the USTR, and private foreign investors may help catalyze the transition from top-down to bottom-up intellectual property law reform.

Furthermore, while the TRIPS sets minimum standards and most favored nation status for all its members, it in no way restricts the formation of new agreements providing greater protection for intellectual property rights not covered by the TRIPS. The NAFTA's expropriation provisions exemplify a powerful means for private companies to directly prevent illegal taking of intellectual property by a foreign government. It will be interesting to see if a similar provision is included in the new Free Trade Agreement of the Americas.[187]

187. The Free Trade Agreement of the Americas (FTAA) proposes to create a single free trade area for the 34 democracies in North, Central and South America by 2005. *See* Overview: Chronology of the FTAA Process, *available at* www.ftaa-alca.org/VIEW_e.asp (last visited May 10, 2000). Intellectual property rights concerns one of the nine negotiating groups currently working on the agreement. *See* www.ftaa-alca.org/ngroups/ngprop_e.asp.