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The Desirability of Agreeing to Disagree: The WTO, Trips, International IPR Exhaustion and a Few Other Things

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THE DESIRABILITY OF AGREEING TO DISAGREE: THE WTO, TRIPS, INTERNATIONAL IPR EXHAUSTION AND A FEW OTHER THINGS

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INTRODUCTION

When multinational corporate producers and purveyors of intellectual products ("IP") demanded changes to the global patchwork of intellectual property laws, the international community responded. The resulting Agreement on Trade-Related Aspects of Intellectual

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Property Rights ("TRIPS")[1] represents a dramatic shift away from the traditional view that intellectual property law primarily serves the interests of national cultures, values, and politics.[2] Grafted onto the General Agreement on Tariffs and Trade ("GATT")[3] as part of that regime's conversion into the World Trade Organization ("WTO"),[4] TRIPS moved radically beyond the highly deferential standard of non-discriminatory treatment to an actual harmonization of substantive intellectual property rights ("IPRs").[5] Although it falls short of creating truly supranational IPRs, TRIPS expressly requires that each WTO signatory provide and enforce a specific minimum level of national patent, copyright, trademark, and trade secret IP protection.[6]

The enthusiasm for "globalizing" intellectual property law suddenly evaporated, however, when the discussion turned to the related question

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1. *See* Marrakech Agreement Establishing the World Trade Organization [hereinafter WTO Agreement], Annex 1C: Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, 33 I.L.M. 81 (1994) [hereinafter TRIPS Agreement].

2. *See* Laurinda L. Hicks & James R. Holbein, *Convergence of National Intellectual Property Norms in International Trading Agreements*, 12 AM. U. J. INT'L. L. & POL'Y 769, 770–71 (1997); Marshall A. Leaffer, *The New World of International Trademark Law*, 2 MARQ. INTELL. PROP. L. REV. 1, 7–9, 28–30 (1998).

3. *See* 61 Stat. A-11, T.I.A.S. 1700, 55 U.N.T.S. 194.

4. *See* WTO Agreement, *supra* note 1; Hicks & Holbein, *supra* note 2, at 782–83; Paul Katzenberger and Annette Kur, *TRIPS and Intellectual Property*, 18 IIC STUDIES 1 (1996).

5. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW 8–9 (Anthony D'Amato & Doris Estelle Long, eds., 1997); Fred H. Cate, *Introduction Sovereignty and the Globalization of Intellectual Property*, 6 IND. J. GLOBAL LEGAL STUD. 1, 3 (1998); Hanns Ullrich, *TRIPS: Adequate Protection, Inadequate Trade, Adequate Competition Policy*, 4 PAC. RIM L. & POL'Y J. 153, 158–60 (1995). There were a number of prior substantive agreements concerning intellectual property law, notably the Paris and Berne Conventions. *See* Paris Convention for the Protection of Industrial Property, July 14, 1967, 21 U.S.T. 1583 [hereinafter Paris Convention]; Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 828 U.N.T.S. 235 [hereinafter Berne Convention]. TRIPS expanded on the substantive coverage offered under these agreements and increased the number of adherents to the entire WTO membership. *See* Doris Estelle Long, *The Protection of Information Technology in a Culturally Diverse Marketplace*, 15 J. MARSHALL J. COMPUTER & INFO. L. 129, 149–54 (1996) (noting the expansion of protection under TRIPS); Jerome H. Reichman, *Universal Minimum Standards of Intellectual Property Protection Under the TRIPS Component of the WTO Agreement*, 29 INT'L LAWYER 345, 347 (1995) (noting that the TRIPS standards incorporate "basic norms of international intellectual property law" but also go well beyond them in some instances, such as patent law) [hereinafter Reichman, *Minimum Standards*]; Jerome H. Reichman, *Enforcing the Enforcement Procedures of the TRIPS Agreement*, 37 VA. J. INT'L L. 335, 338–39 (1997) (noting specifically that national treatment was sufficient for compliance under the "Great Conventions" (the Paris and Berne Conventions)) [hereafter Reichman, *Enforcing*].

6. *See* TRIPS Agreement, *supra* note 1, arts. 1, 9–39; Hicks & Holbein, *supra* note 2, at 784–91; Katzenberger & Kur, *supra* note 4, at 7. A number of other more specific rights were also provided. *See infra* note 49 (providing examples of IPRs addressed in TRIPS).

of interterritorial exhaustion.[7] The negotiations broke down so completely over how the newly mandated national IPRs should work on the international level that the TRIPS accord contains only a statement reflecting the parties' failure to agree.[8] Ironically, the epic multilateral agreement on intellectual property law thus left the most fundamental "international" IPR issue exclusively under the purview of national law.[9] Those laws, unsurprisingly, continue to reflect disharmony on the question.[10] Consequently, not only did everyone leave the TRIPS party somewhat dissatisfied, but intellectual property law remains a troublesome barrier to international trade.[11]

It seems peculiar that, after the parties overcame the enormous hurdle of substantive IPR harmonization, exhaustion should have proven so intractable. Analysis of three anomalies in the TRIPS accord, however, reveals that the disagreement over exhaustion is more than a surprising, nagging loose end to an international breakthrough accord on IP protection. Rather, it is a manifestation of much more serious instability in the basic foundations of the parties' agreement that must be understood and addressed before progress can be made on resolving the exhaustion question.

First, as the TRIPS IPRs rest primarily (if not exclusively) on economic utility policy justifications, the exhaustion decision should have turned solely on determining whether maximum efficiency results from enhanced free-flow of goods in a common global trading market ("common market primacy") or from continued enforcement of the national IPRs ("IPR primacy").[12] This largely mechanical (albeit factually complex) calculation and comparison should not have left the negotiations on exhaustion at such a complete standstill. The key lies in recognizing that the TRIPS utility-based harmonization of "underlying public policy objectives of national systems for the protection of intellectual property"[13] is not, even on its own terms, sufficient to reach a

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7. International exhaustion concerns the effect putting an IPR protected product on the market in one country has on the exercise of parallel IPRs in other countries. *See infra* notes 30–36 and accompanying text (providing an example of international exhaustion).

8. *See* TRIPS Agreement, *supra* note 1, art. 6; *infra* notes 53–59 and accompanying text.

9. *See* TRIPS Agreement, *supra* note 1, art. 6; Frederick M. Abbott, *First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation*, 1 J. INT'L ECON. L. 607, 609 (1998) [hereinafter *Report*]; Ullrich, *supra* note 5, at 191.

10. *See infra* notes 69–78 and accompanying text.

11. *See infra* note 115 and accompanying text.

12. *See infra* notes 121–33 and accompanying text (discussing the arguments of proponents of each position).

13. TRIPS Agreement, *supra* note 1, Preamble.

uniform accord on exhaustion. Maximizing the economic return under the distinct justifications for the various classes of IPRs (patents, copyright, trademarks, and trade secrets) leads to conflicting outcomes on exhaustion. More critically, enhancing performance of the global economy in the aggregate says nothing about the distribution of the resulting wealth. The WTO notwithstanding, international trade still lacks the common enterprise consensus and corresponding decision-making procedures necessary to resolve these crucial allocation concerns. With each nation defending its own best interests, who wins and loses under the different primacy scenarios substantially affects the individual participants' views on the appropriate result.[14]

Second, the fundamental WTO free-trade objective, expressed in TRIPS as concern that IPRs "do not themselves become barriers to legitimate trade,"[15] incongruously appears to have finished well in second place. Far from fostering a barrier-free global marketplace, permitting non-exhaustion means that the TRIPS mandated WTO-wide strengthening of national IPR regimes affirmatively provides IP producers a new and extremely effective tool for dividing that marketplace along national boundaries.[16] This apparent anomaly disappears, however, if TRIPS actually reflects the partially successful use of the GATT/WTO treaty machinery by developed nations to achieve precisely this outcome. In short, TRIPS is more accurately viewed as expressly imposing protectionist limitations favoring IP producers on the operation of the international marketplace. Regardless of whether restricting free-trade to accomplish other policy objectives is appropriate,[17] it is apparent that

14. Precisely such concerns stymied agreement in TRIPS. *See Report*, *supra* note 9, at 619–21. These same problems will come to the fore regarding attempts to add additional policies with distributional consequences to the WTO framework. *See* Fareed Zakaria, *After the Storm Passes*, NEWSWEEK, Dec. 13, 1999, at 40; *see also* sources cited *infra* note 27.

15. TRIPS Agreement, *supra* note 1, Preamble.

16. *See* Rochelle Cooper Dreyfuss & Andreas F. Lowenfeld, *Two Achievements of the Uruguay Round: Putting TRIPS and Dispute Settlement Together*, 37 VA. J. INT'L L. 275, 280 (1997) (noting this competition between free circulation and local protection). *See also* Hicks & Holbein, *supra* note 2, at 770–71; Ullrich, *supra* note 5, at 191.

17. JAMES BOYLE, SHAMANS, SOFTWARE, AND SPLEENS: LAW AND THE CONSTRUCTION OF THE INFORMATION SOCIETY 125 (1996) (characterizing these kinds of limitations as an "intellectual land grab"); Rosemary J. Coombe, *Left Out on the Information Highway*, 75 OR. L. R. 237, 245 (1996) (noting the one-dimensional, U.S.-centric effect of "the incorporation of intellectual property under the purview of international trade"); Jerome H. Reichman, *Securing Compliance with the TRIPS Agreement after U.S. v. India*, 1 J. INT'L ECON. L. 585, 587 (1998) (noting the potential adverse effects on developing countries) [hereinafter Reichman, *Securing Compliance*]. As the November, 1999 WTO meeting in Seattle evidenced, the appropriateness of appending "anti"-free trade issues to the WTO promises to be of substantial importance and controversy in future rounds, once again pitting the developed nations desires for "protection" against developing countries advocacy of unfettered free-trade. *See* sources cited *infra* note 27.

post-TRIPS the GATT/WTO mission cannot be articulated as the uncompromising advocacy of a barrier-free common market.

Finally, particularly as in the absence of an accord on exhaustion, TRIPS IPRs tip the distributional scales decidedly against the developing countries, it seems mysterious they would have signed on to TRIPS at all. The logical explanation is that the developed countries' objectives were accomplished through use of economic power; that TRIPS does not reflect universal normative accord, but rests instead on coerced "agreement."[18] This understanding reveals that the problems with TRIPS are more profound than quibbles over IPR exhaustion. In this light, the failure to agree on exhaustion merely reflects the developing countries' "last stand" resistance in a losing cause; each country must at least remain free to determine the domestic exhaustion question according to its best interests.

Far more significantly, the "open-ended" language used to define the IPRs indicates substantial differences remain over the IPR objectives themselves.[19] These disagreements include distributional and barrier-free trade concerns, but go beyond those issues to question whether economic market efficiency and wealth maximization should yield to other conflicting values, such as guaranteed access to basic needs, natural rights of IP creators or even the inappropriateness of individual incentives within a communitarian view of the human enterprise. These differences have already begun to appear in appeals to the WTO dispute resolution mechanisms.[20] In practice, the coerced TRIPS harmonization may turn out to be more show than substance.

These are important cracks in the TRIPS policy foundations. Only the naive can believe that the post-TRIPS international intellectual property law agenda consists exclusively of hustling the developing economies through the accord's transitional phase so global trade can get on with applying harmonized IPRs in a unified WTO global marketplace.[21]

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18. For a discussion of coercion in the TRIPS negotiations, see *infra* notes 197–213 and accompanying text.

19. *See* Paul Edward Geller, *Legal Transplants in International Copyright: Some Problems of Method*, 13 UCLA PAC. BASIN L.J. 199 (1994) (describing legal "transplants" and the related "open-ended" language implications); *infra* notes 197–213 and accompanying text (applying Geller's analysis to TRIPS).

20. *See infra* notes 214, 258–60 and accompanying text.

21. *See* TRIPS Agreement, *supra* note 1, arts. 65–66 (granting developing economies certain transitional grace periods); Frederick M. Abbott, *The Enduring Enigma of TRIPS: A Challenge for the World Economic System*, 1 J. INT'L ECON. L. 497, 499 (1998) (noting that the WTO is currently focusing its time and energy on implementation timetables); Jerome H. Reichman, *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, 13–14 (1998) (noting the general expectation that once the deadlines expire all

Although the economic power of the developed economies may have been sufficient to force a WTO-wide transplant[22] of economic/utility motivated TRIPS IPRs, the exhaustion disagreement stands as powerful evidence that a strong likelihood of rejection remains.

Until these underlying problems are solved, they present an insurmountable barrier to international agreement on exhaustion. The resolution does not rest in emphatic insistence that "a deal is a deal." Even when possessed of sufficient power to coerce compliance (hardly a sure result), an enforcement approach not only incurs costs that adversely affect the very market efficiencies sought to be gained, but offers no guarantee of a lasting agreement. There is no point in insisting that TRIPS accomplished more than it did. Its utility-based IPRs and the related market economic efficiency analysis, even when competently handled,[23] merely quantify the respective wealth maximizing benefits of common market versus IPR primacy.[24] That information determines the outcome on IPR exhaustion only if the parties agree that aggregate economic wealth maximization is the sole relevant criteria. If they do not, the information (although valuable) does not resolve the profound differences, both distributional and normative, driving disagreement.

Nor is anything to be gained by each party insisting that the overwhelming merits of its position means the only acceptable outcome is adopting its views on the matter. Short of power implemented coercion with its attendant difficulties and shortcomings, this is merely a formula for on-going disagreement. Rather, differences must be expressly acknowledged, discussed, and understood if maximum possible reconciliation of competing interests is to occur.

This Article proposes a procedural and substantive approach specifically designed to achieve this result. Concerning process, interim national and regional decisionmaking and the multilateral debate must expressly broaden and clarify the values and interests at stake. Three basic operational principles advance this objective. First, comparisons based on IPR labels (patent, copyright, and the like) confuse rather than illuminate. Instead, focus must be on the actual underlying policy justifications and objectives. Second, the full range of implicated

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parties will have "bought into" the "high-protectionist agenda") [hereinafter Reichman, *Bargaining Around*].

22. *See* Reichman, *Bargaining Around*, *supra* note 21, at 13–14.

23. For example, Professor Abbott does an excellent job of raising and assessing the arguments. *See Report*, *supra* note 9, at 607.

24. Although the economic efficiency model theoretically can be expanded to incorporate all types of interests, these expansions require significant "value" agreements, which make them impractical in practice. *See infra* note 272 (discussing the limits on using utility as the exclusive tool for reconciling various interests).

justifications (economic and otherwise), including those outside the decision-makers' own norms, must be expressly identified and considered. Finally, any position taken or decision reached must transparently disclose the normative basis for the outcome, specifically indicating which justifications have been adopted, which have been rejected, and the reasons why.

Substantive "progress" requires a paradigm shift. We must discard the assumption that comparing economic returns from common market and IPR primacy provides the single correct "yes or no" answer on exhaustion. Hoping to build such an agreement on far from compelling empirical evidence[25] assessed within a framework of unresolved value and interest differences (TRIPS notwithstanding) is a fool's mission. More importantly, any attempt to force such a "yes or no" outcome in the face of strongly held conflicting world-views is not merely unachievable, but normatively undesirable.

This Article argues that the "agreement to disagree" embodied in TRIPS actually represents the appropriate international outcome rather than the product of a failed negotiation. It expressly recognizes that international accords (in trade at least) should only be predicated on actual normative consensus. Rather than an ultimate "yes or no" on exhaustion, the appropriate objective is a series of context specific outcomes reflecting and reaching only as far as our underlying agreements can take us. Most critically, those agreements must come from a genuine congruence in values or voluntary compromises reflecting the actual circumstances of the participants, not because those currently holding power have determined *a priori* what is best for everyone based on what they believe is best for them. Beyond such "true" agreements, the optimal result comes from acknowledging and respecting our differences.

As an important corollary to these proposed process and substantive changes, it is imperative to revisit the "accords" reached during the TRIPS negotiations. To foster the open debate required for consensus-building, it is necessary to encourage express articulation of all justifications relevant to the interpretation of the rights involved, even if contrary to the mandated protections in TRIPS. As a consequence, some "slippage" must be expected, and permitted, in the implementation of TRIPS itself.[26]

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25. *Cf. Report*, *supra* note 9, at 612–13.

26. This is consistent with (if not more generous than) Professor Reichman's numerous and quite convincing pleas for a more cooperative approach to interpreting and implementing the TRIPS mandated IPRs. *See, e.g.*, Reichman, *Bargaining Around*, *supra* note 21, at 11; Reichman, *Securing Compliance*, *supra* note 17, at 585.

Finally, strong indications exist that future efforts will be made to use the WTO machinery to address additional policy considerations, such as environmental, labor and consumer protection standards, which also stand in conflict with the unconditional pursuit of barrier-free trade.[27] As the WTO trading community wrestles with imposing such limitations, the IPR experience discussed in this Article can provide valuable guidance.[28] In particular, serious consideration should be given to the likely appropriateness of "agreeing to disagree" in the face of the unresolved distributional and normative conflicts such debates inevitably produce.[29]

This Article discusses the international IPR exhaustion question in four parts. Part I briefly describes the issue and how it affects the international trading market. This Part first offers a simple explanation and example of IPR exhaustion. It then discusses the TRIPS debate and concludes with a brief overview of a variety of existing national and regional laws, drawing attention to the critical role of distributional considerations and the related importance of a sense of "common enterprise." Part II describes the market-based arguments for and against international exhaustion. Part III makes the case that addressing exhaustion primarily in economic terms, particularly as a simple contest between developed and developing countries, overly narrows the debate. Finally, Part IV details the proposed procedural and substantive changes necessary to developing an appropriate approach to the international exhaustion question.

I. THE EXHAUSTION ISSUE

A. *Basic Exhaustion Mechanics*

Despite the difficulties in determining the appropriate answer, articulating the exhaustion issue is straightforward. Intellectual property law is primarily national, with each country creating and enforcing its

27. At the November, 1999 WTO meeting in Seattle, a variety of constituencies vigorously advocated that these other competing objectives must also be considered. *See, e.g.*, Steven Greenhouse, *Trade Pacts Must Safeguard Workers, Union Chief Says*, N.Y. TIMES, Nov. 20, 1999, at A10; Joseph Kahn & David E. Sanger, *Impasse on Trade Delivers A Stinging Blow to Clinton*, N.Y. TIMES, Dec. 5, 1999, at A1; Robert Wright, *World Government is Coming. Deal with It.*, NEW REPUBLIC, Jan. 17, 2000, at 18.

28. Many of these objectives will not fit comfortably into the basic economic efficiency "free-trade" WTO paradigm. *See supra* note 27. Their pursuit will also require attention to distributional consequences and some sacrifice of "economic wealth" maximizing behavior. *See infra* notes 292–96 and accompanying text (discussing the need for making these tradeoffs in the context of IPR exhaustion).

29. *See infra* notes 304–09 and accompanying text.

own IPRs exclusively within its jurisdiction.[30] The creator of an intellectual product must therefore seek protection and enforcement in each country individually. As a result, the creator may hold a set of parallel national IPRs covering the same IP in a variety of jurisdictions.

Many nations, particularly those with significant IPR traditions, follow a rule of national exhaustion.[31] Under such a rule, authorized distribution (commonly referred to as a "first sale") of a good incorporating the protected IP will prevent ("exhaust") the holder's further domestic enforcement of the related IPRs against those possessing, using or redistributing the particular good.[32]

International exhaustion concerns the effect of a first sale on the holder's full collection of parallel national IPRs. Absent international exhaustion, each IPR is treated as an entirely separate national right.[33] National exhaustion has no effect on any other parallel IPR, each of which continues to be fully enforceable in its jurisdiction. As a result, the holder can separately invoke each parallel IPR in its jurisdiction against the import, use, or resale of even authorized products first sold in another jurisdiction. The effect is that the holder can use the parallel national IPRs to segment the international market, preventing products sold in one national market from entering other national markets. In contrast, a rule of international exhaustion treats a first sale in any jurisdiction as automatically "exhausting" the holder's parallel IPRs in all the other jurisdictions. Under this approach, a product may move freely anywhere in the worldwide market following any first sale.[34]

A simple example demonstrates. Inventor Corporation develops a new drug for treating Alzheimer's disease that it desires to protect through patenting. The national nature of patent law requires Inventor Corporation to select each jurisdiction in which it wishes to obtain protection, for example, the United States, France, the United Kingdom, China and Japan. It must then comply with each jurisdiction's specific requirements for obtaining local patent protection. If successful, Inventor Corporation will own separate, but parallel, patents covering the drug in

30. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, 373–88; *see also* sources cited *supra* note 2.

31. *See Report*, *supra* note 9, at 614.

32. National (and international) exhaustion only free the specific good from further claims by the IPR holder, letting it circulate freely in the marketplace. The holder's IPR, however, remains intact and can be used to prevent direct exploitation of the intellectual product (the patented invention, the copyrighted work, the trademark) by, for example, making additional products or copies. *See* DONALD S. CHISUM ET AL., PRINCIPLES OF PATENT LAW 984–85 (1998) (noting Judge Rich's point that exhaustion is misleading in this important respect).

33. *See* Ullrich, *supra* note 5, at 159–60.

34. When making a first sale, therefore, the holder must incorporate exhaustion into her computation of the sales price.

each country. Each patent will provide the rights established and enforceable under local law. Those rights generally include the exclusive right to make and sell the drug in, and import the drug into, the particular country for a fixed period of time.[35]

Because of different market and regulatory conditions, Inventor Corporation's sales price for the drug may differ among countries. For example, the market price in the United Kingdom may be substantially lower than in Japan.[36] An independent trading company notices the price disparity. The trading company buys large quantities of the drug sold by Inventor Corporation in the United Kingdom. The trading company then imports the drug into the Japan for resale at less than Inventor Corporation's local market price.

Inventor Corporation seeks to stop the trading company's sales in Japan. It does so by asserting that the trading company's importation and sales of the drug in Japan infringe its Japanese patent. Under a strictly national view of patent rights, each patent is an entirely independent right and Inventor Corporation will prevail. Under national exhaustion, Inventor Corporation's first sale to the trading company in the United Kingdom would exhaust Inventor Corporation's ability to control further use or distribution of the product in the U.K. through enforcement of its U.K. patent. However, the United Kingdom activities have no extraterritorial effect in Japan on the Japanese patent. The Japanese patent rights therefore remain in full force and can be raised to block the trading company's importation or resale of the product in Japan.

In contrast, under a rule of international exhaustion the parallel U.K. and Japanese national patent rights would not be treated as fully independent. Inventor Corporation's sale of the product to the trading company in the U.K. would exhaust not only the local U.K. patent rights but also the rights under all parallel patents in every other jurisdiction, including in Japan. Consequently, the trading company would be free to import and resell the drug products rightfully purchased in the U.K. in all other countries worldwide.

B. *International Exhaustion under TRIPS*

The TRIPS Preamble starts with the following statement of objectives: "Members, [d]esiring to reduce distortions and impediments to international trade, and taking into account the need to promote effective

35. *See* TRIPS Agreement, *supra* note 1, art. 28.

36. The U.K. sets maximum drug prices by law to protect consumers. *See, e.g.*, Case 16/74, Centrafarm BV v. Winthrop BV, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (1974) (discussing the U.K. regulations in an intra-E.U. "free movement" of goods case); *Report*, *supra* note 9, at 623 (discussing the effects of such price controls on exhaustion).

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 trade . . . ."[37] This language indicates that the TRIPS accord sought to address intellectual property issues from three perspectives: a desire to promote undistorted and unimpeded free trade in intellectual products, a desire to protect "ownership" interests in intellectual products, and a desire to avoid having such protection become a barrier to trade in related goods and services. However, in contrast to the lofty Preamble language, the substantive provisions of TRIPS reflect a distinct preference for ownership protection over free trade in related goods and services. Understanding this disconnect from basic WTO free-trade objectives requires a brief examination of the pre-TRIPS multilateral environment and what TRIPS did and did not change.

Intellectual property protection traditionally has been viewed as properly within the province of national law, reflecting primarily, if not exclusively, local values, interests and objectives.[38] With some notable exceptions, most international agreements therefore addressed intellectual property issues largely in terms of non-discrimination rather than substantive rights harmonization.[39] Generally, this meant each nation's rules and rights could be independently and idiosyncratically developed provided they applied on equal terms to nationals and non-nationals ("national treatment").

The result was considerable variation among national IPRs, reflecting differences in local views and circumstances. Of particular consequence to international trade in IP, disparities in domestic economic conditions generally resulted in different levels of protection afforded by developed and developing countries.[40] The laws of developed countries (paradigmatically the United States), as net producers of intellectual products, tended to favor IP creators. They generally created a broad variety of highly protective regimes, including patent, copyright, trademark, and trade secret laws, coupled with robust

37. TRIPS Agreement, *supra* note 1, Preamble.

38. *See Report*, *supra* note 9, at 607.

39. *See* Long, *supra* note 5, at 149–50; Reichman, *Minimum Standards*, *supra* note 5, at 347–48.

40. *See* Frederick M. Abbott, *The WTO TRIPS Agreement and Global Economic Development*, 72 CHI-KENT L. REV. 385, 387 (1996); Jerome H. Reichman, *From Free Riders to Fair Followers: Global Competition Under the TRIPS Agreement*, 29 N.Y.U. J. INT'L L. & POL. 11, 12 (1997); Reichman, *Securing Compliance*, *supra* note 17, at 585–86. It is argued below in this Article that these variations reflect more than differences in economic development involving fundamental differences in cultural values as well. *See infra* notes 214–58 and accompanying text.

enforcement. In contrast, countries with emerging or non-participating economies, as net consumers of intellectual products, tended to favor freer access to IP as a vehicle for continued economic growth. Their regimes offered much narrower protection, if any, and substantially more limited enforcement.

These differences had a variety of effects on the international market in IP and IP-related goods and services. Some nations providing little or no protection became locations of choice for producers who wished to capitalize on the ability to use intellectual products without paying compensation.[41] This resulted in lower-cost local and export competition to IP creators. Creators were, naturally, reluctant to expose intellectual products to "low protection" markets for fear of facilitating such competition. It was argued this reluctance distorted international trade by inhibiting the free-flow of IP throughout the worldwide market.[42] Additionally, low protection jurisdictions reduced or eliminated the incentives provided by IPRs to the creation of IP, arguably resulting in an under-supply of goods and services tailored to local needs.[43]

As international trade burgeoned, these concerns became increasingly important to IP holders in developed economies.[44] Not only did they feel that lack of adequate protection impaired access to a number of commercially desirable markets, but that the outflow of goods produced in low protection jurisdictions had a significant negative effect on their return from other markets as well. In response to industry pressure, particularly in the United States, the developed nations[45] put the issue of increased intellectual property protection on the agenda at the end of the

41. *See, e.g.*, Frederick M. Abbott, *Public Policy and Global Technology Integration: An Introduction*, 72 CHI-KENT L. REV. 345, 345–46 (1996); Michael L. Doane, *TRIPS and International Intellectual Property Protection in an Age of Advancing Technology*, 9 AM. U. J. INT'L L. & POL'Y 465, 469–71 (1994); Reichman, *Minimum Standards*, *supra* note 5, at 346 (noting the increasing importance of IP and the ease of free-riding); *Report*, *supra* note 9, at 616, 619–20; Ullrich, *supra* note 5, at 184–85. Although these low cost producers are referred to as "pirates" and "counterfeiters," that label begs the question of whether intellectual property protection and compensation to the creator is the appropriate policy approach.

42. *See Report*, *supra* note 9, at 622; Harvey E. Bale, Jr., *The Conflicts Between Parallel Trade and Product Access and Innovation: The Case of Pharmaceuticals*, 1 J. INT'L ECON. L. 637, 648 (1998) (making the argument ex post in support of the TRIPS change).

43. *See* Martin J. Adelman & Sonia Baldia, *Prospects and Limits of the Patent Provision in the TRIPS Agreement: The Case of India*, 29 VAND. J. TRANSNAT'L L. 507, 530 (1996) (making the argument ex post in support of the TRIPS change).

44. *See* Abbott, *supra* note 40, at 388–89 (noting the pressures); Doane, *supra* note 41, at 465–66 (noting the increased concern within the United States), 469–70.

45. *See* Doane, *supra* note 41, at 466; Long, *supra* note 5, at 134–35 (noting the increased value of IP exports, leading the "have" nations to want more return from the "have-not" nations); *Report*, *supra* note 9, at 607.

Tokyo Round of GATT negotiations.[46] That discussion involved only counterfeiting of trademarked goods. No agreement was reached.

Driven by continued industry and developed nation pressure, the topic returned in full flower during the Uruguay Round. The result, after much debate, stalemate, and difficulty, was the TRIPS accords.[47] Although TRIPS incorporated the traditional international requirement of national treatment,[48] the agreement went two important steps further in addressing the international IP trading industry's concerns. First, substantive IPRs were themselves harmonized, mandating each WTO member's national laws provide certain minimum substantive patent, copyright, trademark, and trade secret rights.[49] Second, members agreed to offer "fair and equitable" enforcement of those substantive rights by providing "effective action against any act of infringement . . . including expeditious remedies to prevent infringements and remedies which constitute a deterrent to further infringements."[50]

The minimum national requirements approach to encouraging freer international flow and development of IP carries a substantial risk of creating or raising other barriers to trade. TRIPS does not create single, unified "international" IPRs.[51] The IP "owner" still obtains a collection of locally enforceable IPRs, one from each jurisdiction. Standing alone, requiring stronger independent national IPRs in every WTO member country therefore enhances both the holder's portfolio of parallel national rights and the related ability to use them to restrict the free flow of IP-related goods in the worldwide market.[52] Without further action, the TRIPS national "harmonization" reduces barriers to flow of IP in exchange for increased barriers to flow of IP-related goods.

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46. *See* Alexander A. Caviedes, *International Copyright Law: Should the European Union Dictate Its Development?*, 16 B.U. INT'L L.J. 165, 187–90 (1998); Doane, *supra* note 41, at 471–72.

47. Doane, *supra* note 41, at 472–73. *See generally* Frederick M. Abbott, *Protecting First World Assets in the Third World: Intellectual Property Negotiations in the GATT Multilateral Framework*, 22 VAND. J. TRANSNAT'L L. 689 (1989) (discussing the negotiation history).

48. *See* TRIPS Agreement, *supra* note 1, art. 3.

49. *See* TRIPS Agreement, *supra* note 1, arts. 9–40. More specialized rights include performers' rights (art. 14), geographical indications (arts. 22–24), industrial designs (arts. 25–26) and maskworks (arts. 35–38). *See* Hicks & Holbein, *supra* note 2, at 784–91; Katzenberger & Kur, *supra* note 4, at 7.

50. TRIPS Agreement, *supra* note 1, art. 41. *See* Reichman, *Enforcing*, *supra* note 5, at 338–39 (noting how this upped the ante for developing nations).

51. *See* TRIPS Agreement, *supra* note 1, art. 1(1).

52. *See supra* notes 35–36 and accompanying text (describing the market segmentation possibilities without a rule favoring international exhaustion).

The TRIPS negotiators recognized that mandating "first sale" international exhaustion eliminated this trade-off.[53] The issue was hotly debated.[54] Exhaustion proponents argued that the resulting flow of parallel imports would have the salutatory effect of forcing precisely those market competition efficiencies envisioned by the free-trade principles driving GATT and its WTO successor.[55] Non-exhaustion advocates argued that permitting market divisions could have positive effects on the creation and availability of intellectual products[56] and avoids unnecessary intrusion on the strong tradition of national sovereignty over intellectual property matters.[57]

Eventually the exhaustion discussion exhausted the negotiators. Article 6 of TRIPS reflects their ultimate inability to agree: "For purposes of dispute settlement under this Agreement . . . nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."[58] As a result, national and regional authorities retain exclusive decision-making authority over the issue.[59] Moreover, Article 6 expressly instructs those authorities not to interpret TRIPS as providing any guidance on the question.

Consequently, TRIPS only partly accomplished the goals articulated in its Preamble. It was "successful" in creating stronger national IPRs throughout the WTO and thereby encouraging freer flow of IP in the worldwide marketplace.[60] However, it not only failed to avoid the trade barriers arising from such rights, but actually provided the means for increasing them.[61]

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53. Technically, there are two forms of exhaustion. The first is the expiration of a fixed term of protection for the right itself. The substantive harmonization process addressed the term issue by setting minimal terms of protection. *See* TRIPS Agreement, *supra* note 1, arts. 12, 18, 33. The second, more complex issue involves exhaustion through exploitation, the effect of a holder authorized "first sale."

54. *See Report*, *supra* note 9, at 609.

55. *See id.* at 622; *infra* notes 123–26 and accompanying text (discussing the arguments in detail).

56. *See Report*, *supra* note 9, at 622; *infra* notes 127–33 and accompanying text (discussing the arguments in detail).

57. Under international exhaustion, previously purely domestic operation of IPRs become interrelated with extraterritorial actions (a first sale) in one nation affecting application of the intellectual property laws in another. *See supra* note 5 (noting the tradition of territoriality in intellectual property law). *Cf.* Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT'L L. 505, 584–85 (1997) (noting the traditional territorial principal and arguing against unilateral, extraterritorial application of substantive laws).

58. TRIPS Agreement, *supra* note 1, art. 6.

59. *See Report*, *supra* note 9, at 609; Ullrich, *supra* note 5, at 191.

60. *But see* Abbott, *supra* note 40, at 390–92 (highlighting empirical evidence which suggests that foreign investment does not necessarily follow strong IP protection).

61. *See* Ullrich, *supra* note 5, at 191.

C. *The* "Status Quo"—*Assessing the Current National and Regional Positions on Exhaustion*

The TRIPS accord did not create the IPR exhaustion question.[62] Many countries, particularly those with strong intellectual property traditions, have faced the issue with respect to the effects of domestic IPRs on their internal market and regarding imports from outside that market.[63] Additionally, the rise of regional trading blocks, including the European Union ("E.U."),[64] the North American Free Trade Agreement ("NAFTA")[65] and MERCOSUR,[66] has forced members of those communities to address the issue as part of creating their new "common markets." These national and regional experiences provide useful information for future discussions concerning the appropriate international approach.

The fundamental consideration in IPR exhaustion is whether to favor free flow of goods (common market primacy)[67] or continued IPR enforcement (IPR primacy).[68] The existing national and regional positions on the international question fall into both camps, consistent with the TRIPS disagreement on exhaustion.[69] The most frequently drawn generalization is that developed economies favor international non-exhaustion (IPR primacy) while developing economies favor exhaustion (common market primacy).[70] There are, however, troubling inconsistencies in the operation of this "rule," most particularly on the developed economy side. Although non-exhaustion proponents have

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62. *See Report*, *supra* note 9, at 610.

63. *See, e.g.*, Darren E. Donnelly, *Parallel Trade and International Harmonization of the Exhaustion of Rights Doctrine*, 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 445, 449–85 (1997) (discussing the domestic positions on international exhaustion in the United States, the European Union and Japan).

64. *See* Treaty on European Union, Feb. 7, 1992, 33 I.L.M. 247, as amended by the Treaty of Amsterdam, Oct. 2, 1997 [hereinafter Maastricht Treaty].

65. *See* North American Free Trade Agreement, Dec. 17, 1992, 32 I.L.M. 612 (1993) [hereinafter NAFTA Agreement].

66. *See* Treaty Establishing a Common Market, Mar. 26, 1991, Arg.-Braz.-Parag.-Uru., 30 I.L.M. 1041 (1991) [hereinafter MERCOSUR].

67. Common market primacy is certainly an express goal of the WTO, if not its only goal. *See Report*, *supra* note 9, at 611. *Cf.* Hicks & Holbein, *supra* note 2, at 800 (noting that the objective of a common market is free circulation of goods).

68. *See* Donnelly, *supra* note 63, at 447; Hicks & Holbein, *supra* note 2, at 770–71; *Report*, *supra* note 9, at 607; Karl Ruping, *Copyright and an Integrated European Market: Conflicts with Free Movement of Goods, Competition Law and National Discrimination*, 11 TEMP. INT'L & COMP. L.J. 1, 5–12 (1997) (discussing these trade-offs in the European Union context).

69. *See* Donnelly, *supra* note 63, at 448; *Report*, *supra* note 9, at 610.

70. *See Report*, *supra* note 9, at 609, 613; Ullrich, *supra* note 5, at 192.

included France, Italy[71] and the United States, as expected, a number of nations with highly developed economies, such as Japan,[72] Germany,[73] Sweden,[74] Holland,[75] Norway, and Finland,[76] have favored exhaustion. The E.U., with its powerful internal economy, consistently favors "international" exhaustion among its Member States[77] (although it does not apply this rule when non-Members are involved).[78]

The explanation lies in understanding that a nation's international IPR exhaustion decision does not turn exclusively on determining whether common market or IPR primacy maximizes aggregate performance of the global economy. Whenever the calculation includes parties not viewed as involved in a common economic enterprise with the decision-maker, how the resulting benefits are allocated under the adopted rule profoundly influences the outcome. Nations (and regions) are not coming out differently on the same global calculation; they are performing independent, self-interested valuations. The determinative factor on international exhaustion therefore is more precisely stated as "which primacy rule provides the maximum benefit to the decision-maker or, at most, those in common enterprise with the decision-maker."[79]

The European Union provides the paradigmatic example. When forming the European Economic Community, now a pillar of the E.U.,[80] the signatories to the Treaty of Rome (the "EEC Treaty")[81] recognized

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71. *See* Carl Baudenbacher, *Trademark Law and Parallel Imports in a Globalized World—Recent Developments in Europe with Special Regard to the Legal Situation in the United States*, 22 FORDHAM INT'L L.J. 645, 663 (1999).

72. *See* John A. Tessensohn & Shusaku Yamamoto, *The BBS Supreme Court Case—A Cloth Too Short for an Obi and Too Long for a Tasuki*, 79 J. PAT. & TRADEMARK OFF. SOC'Y 721, 725–39 (1997) (criticizing the pro-exhaustion position of the Japanese Supreme Court in BBS Kraftfahrzeugtechnik AG v. K. K. Racimex, 51 MINSHÃ 2299 (Sup. Ct., July 1, 1997)).

73. *See* Baudenbacher, *supra* note 71, at 664–65; *Report*, *supra* note 9, at 610 (both noting that the decision in the Dyed Jeans case eliminated the rule of international exhaustion of trademarks in light of what the German Federal Supreme Court viewed as the contrary E.U. position in the E.U. Trademarks Directive).

74. *See* Baudenbacher, *supra* note 71, at 662.

75. *See id.*

76. *See id.* at 663–65; Jean-Francois Verstrynge, *Copyright in the European Economic Community*, 4 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 5, 17 (1993) (both noting the subsequent elimination of the inconsistent positions upon joining the E.U.).

77. *See Report*, *supra* note 9, at 609.

78. *See infra* notes 87–91 and accompanying text.

79. *Cf.* Wendy S. Vicente, *Comment: A Questionable Victory for Coerced Argentine Pharmaceutical Patent Legislation*, 19 U. PA. J. INT'L ECON. L. 1101, 1119–20 (1998) (noting the similar national calculation with regard to implementation of a more protective IPR regime).

80. Under the Maastricht Treaty, the EEC was absorbed and continued as one of the three pillars of the E.U. *See* Maastricht Treaty, *supra* note 64, art. G(A)(1).

81. *See* Treaty Establishing the European Economic Community, Mar. 25, 1958, 298 U.N.T.S. 11 (1958) [hereinafter EEC Treaty], as amended by Single European Act, 1987 O.J.

the economic benefits of pursuing the formation of a single, barrier-free "common market."[82] By joining the E.U., each Member State expresses its belief that, although all boats may not rise equally, it individually stands to gain more from this joint economic enterprise than by going it alone in the world marketplace.[83] This consensus on common market primacy is expressly set out in the EEC Treaty.[84] Consequently, although the EEC Treaty also expressly provides that national Member State IPRs are to be respected,[85] individual national IPR policies are subordinate to the pursuit of the shared benefits derived from forging an open trading market. The European Court of Justice ("E.C.J."), therefore, has consistently invoked an intra-E.U. "first sale" exhaustion rule. This rule prohibits any post-intra-E.U. first sale exercise of IPRs granted by Member States that impedes the free-flow of goods within the common market.[86]

In contrast, in a recent decision involving trademarked goods first sold *outside* the E.U. and then imported into its common market, the E.C.J. came out against exhaustion.[87] Although the decision was based primarily on the specific language of the E.U. Trademark Directive,[88] the different outcome demonstrates the crucial role of benefits allocation on

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(L 169) 1 (1987). The Maastricht Treaty substantially amended the EEC Treaty to reflect the additional goals of the European Union. *See* Maastricht Treaty, *supra* note 64, art. A; GEORGE A. BERMANN ET AL., CASES AND MATERIALS ON EUROPEAN COMMUNITY LAW 2–4 (Supp. 1995).

82. *See* EEC Treaty, *supra* note 81, art. 3. The Maastricht Treaty amended Article 2 of the EEC Treaty to incorporate the additional pillars of the European Union. *See* Maastricht Treaty, *supra* note 64, art. G(B)(2).

83. Additionally, the members must believe that any significant disparities in allocation of the net gains among them will be satisfactorily dealt with by E.U. redistribution mechanisms, such as taxes and subsidies. The issue was a significant bargaining point in the formation of the E.U. *See infra* notes 181–93 and accompanying text (discussing the effect of distributional concerns in the absence of common enterprise).

84. *See* EEC Treaty, *supra* note 81, art. 2.

85. *See id.* at art. 36; Case 144/81, Keurkoop BV v. Nancy Kean Gifts BV, 1982 E.C.R. 2853, 2872–73, [1983] 2 C.M.L.R. 47, 60–61 (1982).

86. *See, e.g.*, Case 78/70, Deutsche Grammophon Gesellscheft GmbH v. Metro-SB-Grossmärkte GmbH, 1971 E.C.R. 487, [1971] C.M.L.R. 631 (1971); Abbott, *supra* note 40, at 397; Donnelly, *supra* note 63, at 470–83; Ruping, *supra* note 68, at 5–11.

87. *See* Case C-355/96, Silhouette Internat'l Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft Gmbh, 1998 E.C.R. I-4799, [1998] 2 C.M.L.R. 953 (1998). For a detailed discussion of this case, see Baudenbacher, *supra* note 71, at 645; William J. Littman, *Recent Developments, The Case of the Reappearing Spectacles*, 7 TUL. J. INT'L & COMP. L. 479 (1999). *See also* Case 270/80, Polydor Ltd. v. Harlequin Record Shops Ltd., 1982 E.C.R. 329, [1982] C.M.L.R. 677 (1982).

88. Council Regulation 40/94, 1994 O.J. (L 11) 1. *See* Baudenbacher, *supra* note 71, at 656–58 (discussing the E.C.J. ruling in *Silhouette*).

exhaustion decisions.[89] Inside the E.U., in order for the common enterprise to maximize the shared benefits of an efficiently operating single barrier-free market, goods must be permitted to move without interference from exercise of parallel Member State IPRs.[90] When goods are brought in from the outside (or sent out), however, the "easy" common enterprise solution to the benefits allocation question disappears. Who specifically stands to gain and lose from IPR barriers to trade must be carefully considered.[91]

These same allocation considerations also cause variations in national positions on internal (national) and external (international) exhaustion, as the U.S. positions demonstrate. Despite its strong IPR traditions, the United States follows an internal rule of "first sale" exhaustion in patent, copyright and trademark law.[92] This outcome reflects a determination that free trade, common market primacy maximizes aggregate wealth creation within the United States market despite the limits it places on returns to intellectual property creators. In contrast, the United States has consistently favored an IPR primacy driven non-

89. The Advocate General's arguments about uneven benefits within the E.U. from divergent Member State views and the need to obtain international reciprocity are particularly clear on the matter. *See Silhouette International*, 1998 E.C.R. at I-4815, [1998] 2 C.M.L.R. at 963–64; Baudenbacher, *supra* note 71, at 655, 692–95 (noting that the E.C.J. "acted as executor of the intentions of the vast majority of Member States . . . and the European Commission" and that the reciprocity argument focuses on the importance of obtaining benefits for the individual decision-maker).

90. *See* Silhouette International, 1998 E.C.R. at I-4831, [1998] 2 C.M.L.R. at 963–64.

91. *See* Bale, *supra* note 42, at 647 (noting the E.U. "is redefining internal E.U. trade as domestic trade" in effect changing the territorial reach of the common enterprise from national to regional); Baudenbacher, *supra* note 71, at 695 (noting the differing views of the Member States on the benefits question); Littman, *supra* note 87, at 495, 501 (noting that the E.C.J. merely deferred to the E.U. legislative and executive branches to make the final determination for the E.U. as a whole on the question of international exhaustion); *Report*, *supra* note 9, at 617 (pointing out that internal policies directed toward creating a common market "do not necessarily extend to relations with third countries").

92. For "first sale" exhaustion in patent law, see United States v. Univis Lens Co., 316 U.S. 241 (1942); Adams v. Burke, 84 U.S. (17 Wall.) 453 (1873); Intel Corp. v. ULSI Sys. Tech., Inc., 995 F.2d 1566, 1568 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1092 (1994). For first sale exhaustion in copyrights, see Bobbs-Merrill Co. v. Straus, 210 U.S. 339 (1908) (subsequently codified in 17 U.S.C. § 109(a) (1994)). The first sale doctrine is more commonly referred to simply as "exhaustion" in trademark law. *See* Prestonettes, Inc. v. Coty, 264 U.S. 359 (1924); Champion Spark Plug v. Sanders, 331 U.S. 125 (1947); NEC Electric v. Cal Circuit ABCO, 810 F.2d 1506, 1509 (9th Cir. 1987). *See also* Bale, *supra* note 42, at 639; Mark D. Janis, *A Tale of the Apocryphal Axe: Repair, Reconstruction, and the Implied License in Intellectual Property Law*, 58 MD. L. R. 423, 429–36 (containing a good summary of the first sale doctrine under U.S. law). A number of other countries also apply a rule of "national" (domestic market) exhaustion. *See, e.g.*, Donnelly, *supra* note 63, at 483 (citing WARWICK ROTHNIE, PARALLEL IMPORTS (1993) and noting that a number of European countries take this approach).

exhaustion position in the international marketplace.[93] Clearly, considerations beyond barrier-free maximization of wealth creation, including, most particularly, the supplemental wealth transfers to U.S. IP creators from international market segmentation, have placed a self-interested thumb on the scale in favor of continued IPR enforcement.[94]

The example of the United States provides the basic explanation for the general division on international exhaustion between developed and developing nations.[95] Developed economies (including regional common enterprises such as the E.U.), as net creators of intellectual products, stand to gain from the continued flow of benefits to their IP creators from external markets under IPR primacy. They therefore will generally come out against international exhaustion. Developing economies, as net IP consumers, seek to eliminate these IPR wealth transfers to foreign

93. *See, e.g.*, Boesch v. Graff, 133 U.S. 697 (1890) (no international exhaustion of parallel national patents). This caution was also visible in the U.S. position against international exhaustion in the TRIPS negotiations and afterwards. *See* Baudenbacher, *supra* note 71, at 677 (noting the United States' reaction to legislation from New Zealand and Australia favoring international exhaustion); *Report*, *supra* note 9, at 609. The recent United States Supreme Court decision in *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, 523 U.S. 135 (1998), is not to the contrary. *Quality King* involved goods made and sold in the United States, exported, and then brought back into the United States. *See id.* at 154 (Ginsburg, J., concurring). Therefore, it does not involve exhaustion of parallel national rights, only U.S. rights. *See id.* at 153 (Ginsburg, J., concurring); Baudenbacher, *supra* note 71, at 676–77 (noting the narrowness of the *Quality King* decision). The situation in trademark law is more complex. Although in *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923), the United States Supreme Court appeared to take a non-exhaustion stance, that holding has been narrowly read to apply only when the parallel trademarks are not subject to common ownership or control. *See* K mart Corp. v. Cartier, Inc., 486 U.S. 281 (1988); *see also* Baudenbacher, *supra* note 71, at 677–87 (discussing the "material differences" exception to exhaustion even when there is common ownership or control); Donnelly, *supra* note 63, at 454–58.

94. *Cf. Report*, *supra* note 9, at 624 (noting the wealth transfer problem). It is interesting to observe that one group of commentators excoriated the Japanese Supreme Court for its generosity in adopting a rule of international exhaustion based in part on the harm to Japanese holders of significant parallel IPR portfolios. *See* Tessensohn and Yamamoto, *supra* note 72, at 733–34. The authors find the decision "an undesirable departure among the mainstream industrial jurisdictions." *Id.* at 740–41. They specifically note the difference in E.U. law drawn between intra-E.U. "common market" trade and parallel imports from outside the E.U. *See id.* at 739–41.

95. IPR issues have been cast as a contest between developed nations and developing (and non-participating) nations, most recently regarding the effects of the mandated adoption of national IPRs under TRIPS. *See, e.g.*, Keith Aoki, *Neocolonialism, Anticommons Property, and Biopiracy in the (Not-So-Brave) New World Order of International Intellectual Property Protection*, 6 IND. J. GLOBAL LEGAL STUD. 11, 57 (1998); 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, 235–40 (1998) [hereinafter Long, *Culture*]; A. Samuel Oddi, *TRIPS—Natural Rights and a "Polite Form of Economic Imperialism,"* 29 VAND. J. TRANSNAT'L L. 415, 455 (1996).

holders and, consequently, will generally favor international exhaustion.[96]

This logic, however, fails to explain why a substantial number of developed countries nonetheless favor international exhaustion.[97] Closer analysis reveals that although the net IP creator or consumer formulation plays an important role, it fails to fully reflect the maximum benefit to the decision-maker calculation. Specifically, it overlooks an important additional variable: the potential positive domestic effects of free-trade price competition under international exhaustion. The combined effects of whether a nation is a net IP creator or consumer *and* the free-trade effects on local market conditions actually drive the final decision.[98]

This more complete calculus explains why a developed, net IP producing nation (or region) may still come out in favor of international exhaustion. As noted, a developed economy will generate numerous domestic holders of large parallel IPR portfolios and non-exhaustion based international market segmentation will therefore likely generate net in-bound flows of wealth. The question remains, however, whether these benefits are offset by the costs of lost parallel import competition in the domestic market. The answer lies primarily in the relationship between domestic and foreign prices for IP-related goods. When domestic prices are generally lower than elsewhere in the world, international non-exhaustion primarily protects income transfers to national IPR holders in "foreign" premium markets by protecting them against exports from the lower cost domestic market.[99] The "isolation" of

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96. Any United States denizen doubting the power of this view need look no further than that nation's own history of offering weak IP protection regime when a developing, IP-consuming nation and becoming an aggressive protector of creators' rights when it became a net IP producer. *See, e.g.*, WILLIAM P. ALFORD, TO STEAL A BOOK IS AN ELEGANT OFFENSE 4–5 (1995) [hereinafter ALFORD, ELEGANT OFFENSE]; William P. Alford, *Making the World Safe for What? Intellectual Property Rights, Human Rights and Foreign Economic Policy in the Post-European Cold War World*, 29 N.Y.U. J. INT'L L. & POL. 135, 146–47 (1996) [hereinafter Alford, *Making Safe*]. There are contrary arguments that, despite the wealth transfer, benefits from greater access, investment and growth make stronger IP protection in the developing countries' best interests. *See, e.g.*, Adelman & Baldia, *supra* note 43; Bale, *supra* note 42, at 647–65; Edmund W. Kitch, *The Patent Policy of Developing Countries*, 13 UCLA PAC. BASIN L.J. 166 (1994); EARL L. GRINOLS & HWAN C. LIN, ASYMMETRIC INTELLECTUAL PROPERTY RIGHTS PROTECTION AND NORTH-SOUTH WELFARE, Bureau of Economics & Business Research Working Paper No. 98-0106 (March 1998).

97. *See supra* notes 72–77 and accompanying text.

98. Even this more complex national market view may become outdated by the "globalization" of markets. *Cf.* THOMAS L. FRIEDMAN, THE LEXUS AND THE OLIVE TREE 7–22 (1999). The distributional concern in that environment moves from national boundaries to individual/corporate "IP haves" versus individual/corporate "IP have-nots."

99. The United States tends to be a "lower cost" market with regard to IP-related goods. Occasionally, a particular domestic multinational's worldwide pricing will expose the manufacturer to cheaper foreign parallel imports. This is more likely to occur with less "high-tech"

the domestic market therefore has little effect on national consumers. Consequently, these developed economies can favor domestic IP creators through non-exhaustion without incurring substantial consumer cost or risk of related political backlash.

In contrast, in developed economies whose national markets generally have higher prices for IP-related goods, such as Japan, Germany, Finland, and Norway, domestic consumers will benefit from the price-competition provided by parallel imports from lower cost "foreign" jurisdictions.[100] There may, therefore, be substantial cost to domestic consumers, and related resistance, to IPR-based protection of the local premium market. Clearly, there is no domestic benefit to facilitating isolation of the national market by foreign parallel IPR holders who export extra wealth obtained from domestic purchasers. However, these national decision-makers must calculate whether the international market-segmentation returns to domestic IPR holders exceed the cost to its consumers.[101] Whenever this comparison favors domestic purchasers, as will frequently be the case, the developed nation should favor international exhaustion despite the lost wealth transfers to its IP creators.[102]

The above analysis highlights three critical aspects of exhaustion decision-making. First, primacy distributional considerations play a pivotal role, with the decision-maker focusing not merely on aggregate efficient market performance, but on specific allocation of benefits. Second, sharing benefits through common economic enterprise shifts the

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goods. For example, in *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*, 523 U.S. 135 (1998), the IPR involved was copyright protection for the label; in *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988), the trademark on the goods was at issue, rather than IP incorporated in the goods themselves. *See* discussion *supra* note 93.

100. *See* Tessensohn & Yamamoto, *supra* note 72, at 733, 746–47 (noting the potential consumer benefits in Japan's regulated economy and the related harm to Japanese national parallel IPR holders).

101. This same calculus applies generally to developing countries, but without the same level of concern for the much fewer domestic IPR holders. However, if a developing country finds itself to be a "low price" market, it may need to advocate a rule of international non-exhaustion to encourage entry by foreign IPR holders.

102. Much of the wealth transfer may actually be from domestic customers who cannot gain access to even domestic IPR holder's cheaper, foreign-produced goods. Ironically, as the stronger IPRs mandated under TRIPS begin to take hold, the United States and other "low-priced" developed nations will have to deal with their effect on the creation and flow of IP and IP-related goods. Specifically, increased IPR protection encourages both more "foreign" creation of IP and "off-shore" manufacturing by domestic interests in lower-cost foreign jurisdictions. Therefore, in addition to the "job-flight" difficulties, as foreign production of IP-related goods increases, so will the "protection" of the higher-cost domestic market from an influx of cheaper off-shore goods, forcing these previously enthusiastic non-exhaustion national policy-makers to deal with the resulting tension between consumer and IPR holder interests.

distributional "boundary."[103] Those within the common enterprise are likely to make a joint decision on international exhaustion based on the benefits to the enterprise as a whole.[104] Third, and far from incidentally, common enterprise (national and regional) "internal" decisions generally call for first sale exhaustion, thus indicating their belief that aggregate wealth maximization most likely flows from common market rather than IPR primacy.[105] Consequently, consideration of distributional effects in international exhaustion decisions likely has adverse affects on overall market performance.

D. *An Aside Concerning International Trading Agreements under the Common Enterprise Model.*

Before addressing the implications of this analysis for TRIPS, it is worth briefly noting what it reveals about two other significant regional free-trade agreements. The NAFTA free-trade agreement between Canada, Mexico, and the United States expressly addressed harmonization and the strengthening of national intellectual property rights.[106] During the negotiations, Mexico recognized the related potential for market segmentation adversely affected Mexican interests and argued fervently in favor of including a mandated provision on intra-region exhaustion of those rights.[107] That battle was lost in the face of U.S. opposition, and the agreement leaves international exhaustion as a question for national law.[108] Quite clearly, the United States does not view the creation of a common market within the NAFTA territory in the same shared

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103. *See, e.g.*, Baudenbacher, *supra* note 71, at 651 (noting the EFTA Court's argument that individual states should retain their autonomy on foreign trade in the EEA and contrasting this view with the E.C.J.'s position on how international exhaustion should be treated within the E.U.).

104. Distribution of the resulting benefits is handled internally by the rules of the common enterprise. *See supra* notes 80–91 (discussing the E.U. rules).

105. This outcome apparently assumes that IPR objectives can be achieved by permitting the holder to control only the first sale of goods or services based on the protected IP. This is consistent with incentive based IPRs, but needs refinement to accommodate other policies. *See infra* notes 148–72 and accompanying text (discussing the different outcomes under the different U.S. regimes); *infra* notes 214–57 and accompanying text (discussing further issues raised by other policy foundations, such as moral rights).

106. *See* NAFTA Agreement, *supra* note 65, arts. 1701–03; Hicks & Holbein, *supra* note 2, at 791–800.

107. *See Answer of Mr. Hertz, Proceedings of the Canada-United States Law Institute Conference NAFTA Revisited, Discussion After the Speeches of Joseph Papovich and Allen Hertz*, 23 CAN.-U.S. L. J. 327, 329 (1997) (noting that the Mexican position favored eliminating all barriers arising from IPRs, the United States favored permitting IPR holders to segment the market, and Canada held out for the right to "judge sector by sector"); Sean McMillan, *Comments on the Current Status of Intellectual and Industrial Property Regulation in Mexico*, 1 U.S.-MEX. L. J. 57, 58–59 (1993).

108. *See* Hicks & Holbein, *supra* note 2, at 811.

"common enterprise" terms as the Member States of the E.U. The United States' commitment does not reach to extending the distributional boundary beyond its borders and sacrificing the market segmentation wealth transfers to its far more numerous IPR holders.[109]

The MERCOSUR agreement, creating the Common Market of the Southern Cone between Argentina, Brazil, Paraguay, and Uruguay,[110] only addresses harmonization of trademark and geographical indications protections.[111] Although expressly permitting international exhaustion, the MERCOSUR agreements leave the actual decision to the member states.[112] This outcome reflects an understanding that, although international exhaustion is a prerequisite to a maximally performing, shared enterprise common market, at the present stage of MERCOSUR's development, individual members should be left to act in accordance with their own best distributional interests.[113]

II. THE ECONOMIC ARGUMENT FOR COMMON MARKET PRIMACY

The analytical framework similarly indicates that by leaving the exhaustion question to individual member interests, the TRIPS negotiators demonstrated a less than firm commitment to the GATT/WTO objective of creating a barrier-free WTO common market.[114] Continued growth in

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109. It is yet to be seen how consumers might react to the protection of a premium United States market. *See supra* note 102.

110. *See* MERCOSUR, *supra* note 56.

111. Protection is provided under the Protocol of Harmonization of Intellectual Property Norms in the MERCOSUR with respect to Trademarks and Geographical Indications, signed on August 5, 1995. *See* Hicks & Holbein, *supra* note 2, at 800–10; Vicente, *supra* note 79, at 1111–12 (noting the lack of intellectual property standardization).

112. *See* Hicks & Holbein, *supra* note 2, at 811.

113. As Latin American views on intellectual property laws evolve considerable changes are occurring, including a convergence on the TRIPS mandated standards and initial national positions in favor of international exhaustion. *See* Carlos Correa, *Harmonization of Intellectual Property Rights in Latin America: Is There Still Room for Differentiation?*, 29 N.Y.U. J. INT'L L. & POL. 109, 120 (1997) (noting the Argentine and Andean Group regulations); Hicks & Holbein, *supra* note 2, at 811 (noting Brazil's adoption of a rule permitting international patent and trademark exhaustion).

114. *See Report*, *supra* note 9, at 611, 617 ("[The WTO is based on] one very basic idea: that the elimination of barriers to the movement of goods and services across and within national boundaries is beneficial to global economic welfare. . . . The goal of the WTO is to lower barriers to trade in goods and services"). The Report does recognize that the WTO does not share either the E.U. vision of full market integration or the federalism of the United States. *See id.* at 618. Therefore, despite the basic WTO "free trade" objectives, the TRIPS IPRs are not subject to the same "common enterprise" agreements driving the E.U. or the U.S. view of its internal market. The result is distributional considerations may argue against common market primacy even if that outcome provides the greatest aggregate benefit.

the international trade in IP and IP-related goods will apply increasing pressure to revisit this outcome. The differing national and regional positions will frustrate multinational interests in the marketplace, some because they are unable to protect premium markets when exhaustion is locally favored and some because they will find premium markets closed to them when it is not.[115]

These concerns will find expression not only in the political arena, but also through individual efforts to obtain extraterritorial application of "favorable" national laws.[116] A holder, unable to rely on a local, parallel IPR to prevent lower-cost imports into a high-priced, "exhaustion" market,[117] may instead seek to prevent the exports by an infringement action in the lower-priced "non-exhaustion" market.[118] Conversely, an importing defendant who unsuccessfully raises an exhaustion defense in a "foreign" contested market might seek to protect its assets in its "home," non-exhaustion jurisdiction by arguing the foreign judgment should be denied enforcement on public policy grounds.[119]

Although these pressures demonstrate the practical desirability of a uniform international approach,[120] they offer no guidance concerning which "uniform" position on exhaustion to favor.[121] A logical method for answering this normative question would be to convert the problematic country-by-country, self-interested assessment into a global level in-

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115. *See* Donald S. Chisum, *Normative and Empirical Territoriality in Intellectual Property: Lessons from Patent Law*, 37 VA. J. INT'L L. 603, 617–18 (1997) (noting the inevitable pressures of divergent national approaches to intellectual property protection); Paul Edward Geller, *From Patchwork to Network: Strategies for International Intellectual Property in Flux*, 9 DUKE J. COMP. & INT'L L. 69 (1998) (noting the global market's pressures on the patchwork of territorial IPRs) [hereinafter Geller, *Patchwork*].

116. *Cf.* Geller, *Patchwork*, *supra* note 115, at 71–73 (noting the same potential for confusion arising under conflicts of laws).

117. *See supra* notes 99–102 and accompanying text (explaining that domestic consumer pressure in the high-priced market will weigh heavily in favor of such an approach).

118. *Cf.* Piccoli A/S v. Calvin Klein, 19 F. Supp.2d 157, 170–71 (S.D.N.Y. 1998) (noting that extraterritorial enforcement of the Lanham Act looks to connections to the flow of U.S. commerce). Similar "stream of commerce" notions may be applied elsewhere. For example, the Tokyo Local Court recently found "infringement" of a United States patent by manufacturing in Japan for export to the United States. *See* Fujimoto v. K.K. Newron (Tokyo Dist. Ct., No. 23,109, 1999).

119. Despite comity and recognition of judgments concerns, a local business buying domestically in a developing country for export will likely make an attractive case for remedying the adverse distributional consequences of the non-exhaustion position taken by the developed country targeted for the imports.

120. *See* Chisum, *supra* note 115, at 617–18; Geller, *Patchwork*, *supra* note 115, at 73–74 (noting the global market's need for a shift from a patchwork of IPRs to a consistent supranational code).

121. If, as argued in this Article, uniformity proves undesirable (at least for the present) for other reasons, then these costs must be taken into account in the decision to favor national autonomy on the exhaustion question. *See infra* notes 292–309 and accompanying text.

quiry. If the WTO is viewed as a shared common economic enterprise, the distributional boundary expands to include all members. The only question remaining becomes whether common market or IPR primacy yields the greatest net benefit to the enterprise as a whole. Professor Abbott, Special Rapporteur for TRIPS, takes this approach in his *First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation (Report)*.[122] His thoughtful discussion provides valuable insights concerning both appropriate conclusions under such a "global" view of the exhaustion question and its shortcomings.

Proponents of exhaustion, largely the developing countries,[123] argue that permitting parallel imports protects local consumers against artificially high prices through increased domestic competition,[124] the very efficiencies envisioned by the free-trade principles on which the WTO is predicated.[125] Additionally, the rule would encourage exports of low-cost local production, thereby fostering efficient international resource allocation and developing country growth through increased production investment.[126]

Opponents, notably the United States,[127] argue that global market segmentation can have positive economic effects.[128] Specifically, a non-exhaustion rule encourages entry and participation in developing markets at lower, locally more affordable prices by eliminating them as

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122. *See Report, supra* note 9, at 607.

123. *See id.* at 609.

124. *See id.* at 622, 624–25, 631 (discussing patents, copyrights, and trademarks, respectively). *See also* Shubha Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, 15 U. PA. J. INT'L BUS. L. 373, 376–77 (1994); Lord Sydney Templeman, *Intellectual Property*, 1 J. INT'L ECON. L. 603 (1998).

125. *See Report, supra* note 9, at 611–12.

126. *See id.* at 620–21.

127. *See id.* at 609. The E.U., faced at the time with differences among Member States on the question, appears to have focused largely on preserving intra-E.U. exhaustion. *See id.* This should have put the E.U. on the side of the developing countries. However, preserving the right to oppose international exhaustion, defined as involving nations outside the E.U. "internal" market common enterprise, required favoring the United States position. *See supra* notes 80–91 and accompanying text (discussing and explaining these seemingly divergent views on exhaustion). As a consequence, the E.U. position was at best "perplexing" leading to ambiguous signals. *See supra* notes 80–91.

128. As Professor Abbott observes, many of these economic arguments mirror those made in favor of permitting vertical market-divisions under competition laws. These arguments have carried the day in the United States and in a variety of other jurisdictions. *See Report, supra* note 9, at 622, 629–30. In addition to the economic arguments, it was also noted that international exhaustion intrudes on traditional national sovereignty over intellectual property rights. *See supra* note 57. The normative question, of course, is whether this national sovereignty should exist in the first place.

risky sources of cheaper parallel imports back into premium markets.[129] Additionally, consumer non-price interests, such as adequate quality control and availability of local service and support, are protected by eliminating third party parallel imports.[130] Concerning development, permitting export competition from local industry would retard inflow of the very technologies on which such growth must be predicated.[131] Additionally, market segmentation maximizes IPR incentives to creation of IP[132] by allowing the holder to generate maximum return from each national market according to its particular characteristics.[133]

Professor Abbott's assessment of these arguments starts by noting his analytical framework: "[R]ules prohibiting parallel importation [non-exhaustion] are non-tariff barriers to trade that are inconsistent with basic WTO [free-trade] principles. They should be prohibited, absent a showing that they serve a social welfare purpose that outweighs their trade-restricting effect."[134] Applying this test, he finds that the offered social welfare benefits under international exhaustion "can be accomplished by significantly less trade restrictive means, i.e., by private contract establishing exclusive sales territories . . . ."[135] He therefore

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129. *See Report*, *supra* note 9, at 619; Bale, *supra* note 42, at 648–49.

130. *See* Bale, *supra* note 42, at 651–52; Ghosh, *supra* note 124, at 375–77; *Report*, *supra* note 9, at 612, 627.

131. *See* Bale, *supra* note 42, at 648.

132. *See infra* notes 150–54 and accompanying text (discussing incentive to create as the justification for United States patent and copyright law).

133. In the view of some (notably the pharmaceutical industry), substantial incentive is essential to encourage the increased investment in research and development necessary to drive creation. *See* Bale, *supra* note 42, at 640–43. *But see* Long, *supra* note 5, at 134 (noting it is unlikely that a national creator actually requires anything beyond the incentives offered under national law); A. Samuel Oddi, *TRIPS—Natural Rights and a "Polite Form of Economic Imperialism*, 29 VAND. J. TRANSNAT'L L. 415, 460 (1996) (arguing that little incentive is added by requiring patent protection in developing countries).

134. *Report*, *supra* note 9, at 635.

135. *Id.* In effect, the "public" position should not subsidize the IPR holder's private efforts at market division. However, Professor Abbott expressly points out that this conclusion does not preclude the IPR holder from relying on private contract "self-help" within permitted competition law norms. *Id.* at 631–32. Relying on private contract to mitigate the potential costs of an exhaustion position poses two problems. First, the realities of the marketplace make reliance on contractual solutions, at best, problematic. *See, e.g.*, Tessensohn & Yamamoto, *supra* note 72, at 734–36 (noting the enforcement problems). Generally, the parallel importer is not under direct contractual obligation to the IPR holder. A multi-member distribution channel makes it all but impossible to efficiently trace the source of the goods being imported. Moreover, even if the source under contract can be traced, the problem may be a breach by an unidentified party further down the chain of distribution. *See id.* Second, a traditional "rule of reason" approach to enforceability makes it unlikely that contractual restraints will be of substantial value to the IPR holder. *See id.* at 739. Under U.S. law, for example, the existence of vigorous inter-brand competition is key to permitting vertical restraints. *See, e.g.*, Continental T.V., Inc. v. GTE Sylvania, Inc., 433 U.S. 36 (1977). Consequently, the situations in which contractual restrictions are most important to the IPR holder, a high-cost, non-

comes down firmly on the side of WTO-wide (if not global) common market primacy and the benefits of free trade.[136]

Consequently, the *Report* proposes an alluringly simple amendment to TRIPS, mandating international exhaustion with only two narrow exceptions. The amendment would institute a traditional "first sale" exhaustion rule, prohibiting any IPR based restrictions on imports after a good or service is "[put] on the market of any [WTO] Member with the consent of the intellectual property rights holder."[137] The first exception concerns price controls and compulsory licensing in connection with public health goods. Professor Abbott suggests that in this situation limitations on exports may be appropriate to avoid "export subsidies" favoring local manufacturing and distribution interests at the expense of the IPR holder.[138] The second exception recognizes the "unique characteristics of the broadcast and performance market,"[139] in particular the holder's dependence on "earnings from repeated communications of the same work to the public."[140] He suggests that it may, therefore, be appropriate to protect holders facing this special difficulty by not treating public performances as exhaustion triggering first sales.[141]

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competitive market, will provide the weakest basis for enforceability. Such private contract efforts may also conflict with other "free flow" public policies, such as the E.U.'s prohibition restricting parallel imports. *See* BERMANN ET AL., supra note 81, at 633–34.

136. *See Report, supra* note 9, at 635.

137. *Id.*

138. *See id.* at 635–36. At one point Professor Abbott appears to focus on free trade export subsidy concerns instead of the free trade versus IPR economic arguments. *See id.* at 623. The wording of the proposed exception, however, returns to "impairment" of the IPR holders' rights. This language presumably means that the harm to IPR objectives (in this case, incentives to create) resulting from the price caps and/or compulsory licensing requirements justifies the limitation on international free trade. *See id.* at 635. Understood in this broader, and more accurate, manner, the concern is not simply about price caps or compulsory licenses of public health related goods. The same issue arises any time the national decision-maker determines that "other social values" should trump "standard" IP protection objectives (including those incorporated in TRIPS) and limits the scope of the national IPR. The question of how to handle the full range of this national "trumping" behavior requires substantially more attention than given by the Report. For a discussion of the serious barrier to reaching consensus on exhaustion presented by divergent national norms, see *infra* text accompanying notes 214–57.

139. *Report, supra* note 9, at 636.

140. *Id.*

141. *See id.* Again, the issue is more complex than the single exemplar indicates. Treating any form of distribution as a first-sale reduces the IPR's value to the holder. The critical question therefore is not whether the holder "depends" on the distribution to obtain return but how cutting off further return under a particular form of distribution should affect the common market versus IPR primacy decision. For example, it must also be determined whether videotape or software rentals should or should not be considered as triggering first sales. The question does not turn on "dependence" of the IPR holder on repeated transactions, but on when IPR objectives should yield to free-trade benefits. *See* discussion *infra* notes 150–77 and accompanying text.

Professor Abbott's conclusion is well supported. Efficiency theory strongly suggests that maximum economic performance depends on removing barriers, IPR or otherwise, to market forces. International acceptance of this argument provides, as he notes, the fundamental justification for creating the WTO. Additionally, as his "less restrictive means" analysis points out, contract law mitigation provides a vehicle for obtaining these substantial free-trade benefits with very little offsetting cost.[142] Finally, his conclusion finds extraordinarily convincing real-world advocates. Faced with actual rather than theoretical consequences, national and regional common enterprise decisionmakers have virtually unanimously adopted internal market "first sale exhaustion" primacy.

As persuasive as these arguments are, some doubts remain. Reasonable people making valid points can, and do, reach conflicting conclusions.[143] Even Professor Abbott points out the lack of definitive empirical evidence makes it difficult to have confidence in any conclusion, no matter how soundly reasoned it might appear.[144] What may work within limited internal national or regional markets may not readily translate into a "worldwide" rule. As he notes, one particular missing "fact" makes the leap from a local to general pro-exhaustion conclusion especially risky.[145] Many significant exporting economies, most notably the United States and the European Union, currently adhere to an "external" non-exhaustion position. The *status quo* may therefore be holding back a large dormant parallel import market which would be "unleashed" by the change. The effects could be precisely those posited by the exhaustion opponents: substantially reduced availability of products in lower priced markets, a marked increase in worldwide prices, or both.[146]

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142. *But see supra* note 135 (noting the difficulties with this argument under national competition law).

143. *See* Adelman & Baldia, *supra* note 43, at 508–11; Bale, *supra* note 42, at 652–53; Kitch, *supra* note 96 at 166–68.

144. *See Report*, *supra* note 9, at 613.

145. *See id.*

146. Professor Abbott does not return to assess this possibility in connection with his pro-exhaustion position. The E.U. experience provides a significant test of the international waters and the results, to date at least, arguably indicate the concern may be more theory than substance. However, the E.U. common enterprise consensus (as well as relative economic parity, across the worldwide spectrum at least) may be controlling reaction to the distributional consequences of free trade. Its absence in the WTO context might well generate more self-interested behavior and the predicted consequences.

III. BROADENING THE DISCUSSION

Focusing exclusively on the merits of the opposing economic arguments, however, risks overlooking the much more serious difficulties with the common enterprise approach taken in the *Report*.[147] First, even in a "perfect" world of harmonized economic utility based IPRs and objectives, the different justifications supporting the various distinct regimes (patents, copyrights, trademarks and trade secrets) dictate conflicting outcomes on exhaustion. Second, even appropriately refined to reflect these differences, the "common enterprise" assumption ignores, much less resolves, the decision-makers' conflicting positions generated by the very real differences in wealth distribution under the alternative positions on international exhaustion. Finally, there is substantial evidence that, despite superficial appearances, TRIPS does not represent real consensus that goods and services wealth maximization is the proper single justification for international IPRs. Such disagreement runs deeper than dividing economic wealth. Rather, there remain substantial differences over what constitutes value in the pursuit of the human enterprise. Examination of each of these considerations reveals that a unified "yes or no" resolution on international exhaustion is, in present circumstances at least, unachievable and, more importantly, undesirable.

A. *Different Categories of Intellectual Property Rights*

The *Report* notes at the outset that it is erroneous to assume a monolithic justification for the IPRs granted under all intellectual property regimes.[148] This position is non-controversial, with general agreement that despite the uniform "property" label, significantly different policies justify the various specific rights across the spectrum of protections. However, the *Report*'s analysis makes very little of these differences, and no mention appears in the conclusion.[149] Far from a trivial omission, this failure glosses over the insurmountable barrier these varying objectives pose to adopting the "one size fits all" proposal offered by Professor Abbott.

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147. Professor Abbott clearly states the Report is only intended to address the exhaustion issue in "broad economic terms." *See Report, supra* note 9, at 607. The conclusion is not, however, qualified in the same way, and it must be. Although the Report may properly answer the economic question, its narrow focus omits or ignores additional important considerations making its recommendations similarly incomplete.

148. *See Report, supra* note 9, at 612, 614.

149. While the Report assesses each primary regime separately, it finds no fundamental differences in outcome, a particularly striking omission in the case of trademark law given its consumer confusion focus. *See infra* notes 160–64 and accompanying text.

A brief review of the United States' array of intellectual property rights[150] clearly demonstrates how fundamental differences in specific justifications, even within its overall market-utility policy context, dictate conflicting conclusions concerning exhaustion.[151] The U.S. patent and copyright laws exist primarily to foster creation of certain types of intellectual products for society's benefit.[152] The incentive takes the form of legally enforceable rights to exclude others' use of the resulting IP for limited periods of time.[153] In this framework, the primary policy objective is achieving an appropriate balance between the public cost of the investor's exclusionary rights (in the form of rents and, additionally in the case of copyrights, interference with the freedom of discourse and expression) and the resulting public benefits (primarily from the right to use the "encouraged" creation on expiration of the patent or copyright term).[154]

This same policy balance, therefore, should drive the patent and copyright exhaustion outcome. In common enterprise terms, the question is which position achieves the proper balance between private incentives (costs) and public access (benefits).[155] If encouraging the necessary investment requires permitting the investor/IPR holder to maximize return by segmenting the international market through parallel IPRs, then non-

150. Not only does the well-developed body of U.S. intellectual property law provide a good vehicle for identifying the policy differences among regimes, but the TRIPS IPRs are largely based on United States utility/market efficiency premises. *See infra* note 180.

151. The analysis in the text below is over-simplified, as indicated in the footnotes, to focus on the more general points. It also assumes that the theories described actually work. It is far from a forgone conclusion that even the established intellectual property regimes like those in the United States have it right. For example, there is little empirical evidence that U.S. copyright laws draw a proper balance between incentives and the commons, particularly given recent extensions in the term of protection. The propertization of trademark law is equally problematic. *See infra* note 160. We are not even certain that trade secret law should exist. *See* Vincent Chiappetta, *Myth, Chameleon or Intellectual Property Olympian? A Normative Framework Supporting Trade Secret Law*, 8 GEO. MASON L. REV. 69 (1999) (noting the need for a normative foundation, which is proposed). It is unclear that before these serious questions are resolved there should be any great rush to perform a global transplant of those values as guidelines to the rest of the world.

152. The Constitution expressly authorizes Congressional enactment of the patent and copyright laws to "promote the Progress of Science and useful Arts." *See* U.S. CONST. Art. I, § 8, cl. 8; Vincent Chiappetta, *Patentability of Computer Software Instruction as an "Article of Manufacture:" Software as Such as the Right Stuff*, 17 J. MARSHALL J. COMPUTER & INFO. L. 89, 97–99 (1998).

153. Patents and copyrights address the "public goods" market failure, which destroys incentive to invest in creation because of inability to obtain a reasonable return. *See* Chiappetta, *supra* note 151, at 86–87.

154. *See id.* at 88–89.

155. The question of who specifically receives the benefits and bears the costs raises serious distributional issues that are considered separately below. *See infra* notes 181–93 and accompanying text.

exhaustion should be favored.[156] If that segmentation provides surplus returns, they represent an unjustified public expense and exhaustion is the appropriate rule.[157]

On this basis, a logical case can be made that a single "yes or no" answer depends only on assembling the necessary data. However, even this straightforward balancing test may still dictate variable responses. For example, although overall the empirical evidence might support a general rule favoring exhaustion, individual circumstances may justify a variety of exceptions. Encouraging the especially high investment necessary in certain industries (for example, pharmaceuticals) may require levels of potential return only available through international market segmentation, while other, less resource intensive activities may not. Similarly, certain activities likely to produce significant social benefits (such as increased agricultural yields or new medical technologies) may be sufficiently important to justify erring in favor of over-incenting those types of investments in the face of empirical uncertainties concerning the proper level of return required.[158] If the evidence dictated a contrary result overall, the exceptions would be driven by the opposite considerations, for example, a demonstrably lower need for encouragement. Nonetheless, provided adequate assurances existed that the incentive system would deliver net benefits in the aggregate, these questions of degree could be ignored to obtain the administrative efficiency of a single, uniform rule.[159]

The far more significant impediment to a "universal" rule remains the differing justifications for the various IPR regimes. Although patent and copyright law follows similar incentive patterns, trademark law

156. *Cf.* Bale, *supra* note 42, at 641–44 (noting size of investments in pharmaceuticals).

157. *Cf.* Long, *supra* note 5, at 134 (querying whether mandated national IPRs are necessary to produce the requisite incentive). The debate over whether the national incentive/cost balance has been appropriately drawn will affect the decision. *See, e.g.*, Stephen Breyer, *An Uneasy Case for Copyright: A Study of Copyright in Books, Photocopies, and Computer Programs*, 84 HARV. L. REV. 281 (1970) (arguing that extending the term of United States copyright protection under was unnecessary, an argument recently given new life by the Copyright Term Extension Act); Templeman, *supra* note 124, at 604 (making the same arguments about United Kingdom patent and copyright term extensions). For example, those that view the term of national protection as too long or the regime as totally unnecessary, are likely to believe that no additional incentive through international market segmentation is required. *See* Templeman, *supra* note 124 at 605–06.

158. Additionally, distribution methods or other specifics may argue for greater circumspection concerning the events triggering exhaustion. *See supra* notes 139–141 and accompanying text (discussing the public broadcast exception in the *Report* and similar issues).

159. This is the basic approach taken in U.S. patent and copyright law. The strains of special circumstance adjustments are, however, visible in a few different areas. *See* 17 U.S.C. §§ 107–120 (1994) (listing a variety of exceptions to the holder's rights in copyright law); 35 U.S.C. § 271(e) (1994) (listing biotechnology exceptions in patent law).

focuses instead on preventing consumer confusion as to source.[160] Even at the most general level of analysis, this objective dictates at least a bifurcated exhaustion rule. If the same holder[161] markets substantially similar goods under the trademark in each jurisdiction, then consumer confusion is unlikely and exhaustion, free-flow benefits should prevail.[162] If, however, there are material differences among the holder's local products bearing the trademark, then permitting parallel-trade in these products would be utterly inconsistent with the consumer protection underpinnings of trademark law.[163] This bifurcated trademark outcome on exhaustion is entirely independent of the patent/copyright incentive calculation and must conflict in part with whatever "general" rule (for or against exhaustion) that policy generates.[164]

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160. *See* J. THOMAS MCCARTHY, MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION, § 2.8 at 2–15, § 6.3 at 6-5 (4th ed. 1996). Unlike United States patent and copyright law, which follows the Constitutional mandate of "progress of science and the useful arts," federal trademark law finds its justification in the Commerce Clause. *See In re* Trademark Cases, 100 U.S. 82 (1879). The "consumer confusion" objective fits within the efficiency model by providing incentives to product quality and reducing consumer search costs. *See* MCCARTHY, *supra*, §§ 2.3–2.5 at 2–3 to 2–9. Despite the recent trend toward increased incentive-style "property" rights, consumer confusion remains the primary policy touchstone. *See, e.g.*, Mark A. Lemley, *The Modern Lanham Act and the Death of Common Sense*, 108 YALE L. J. 1687 (1999) (noting this trend and arguing that it is unjustified).

161. What constitutes the "same holder" for trademark exhaustion purposes can be a complex inquiry. *See, e.g.*, K mart Corp. v. Cartier, Inc., 489 U.S. 281 (1988); Donnelly, *supra* note 63, at 455–56 (discussing "common control" under *K mart Corp.*). *See also* Case 192/73, Van Zuyleu Freres v. Hag AG, 1974 E.C.R. 731, [1974] 2 C.M.L.R. 127 (1973) [hereinafter *Hag I*]; Case 10/89, SA CNL-Sucal NV v. Hag GF AG, 1990 E.C.R. 3711, [1990] C.M.L.R. 571 (1990) [hereinafter *Hag II*]; BERMANN ET AL., *supra* note 81, at 421 (discussing *Hag I* and *Hag II*); Baudenbacher, *supra* note 71, at 681–82 (discussing common control under U.S. law); Donnelly, *supra* note 63, 480–81 (discussing the common origin issue under E.U. law, specifically *Hag I* and *Hag II*).

162. *See* Donnelly, *supra* note 63, at 456–58, 478 (discussing basic first sale exhaustion under U.S. law and E.U. law); *supra* note 92 (discussing, among other things, first sale exhaustion of U.S. trademark rights). *See also* Case 3/78, Centrafarm BV v. American Home Products, 1978 E.C.R. 1823, [1979] 1 C.M.L.R. 326 (1978); Case 16/74, Centrafarm BV v. Winthrop BV, 1974 E.C.R. 1183, [1974] 2 C.M.L.R. 480 (1974); BERMANN ET AL, *supra* note 81, at 410–17 (discussing intra-E.U. first sale exhaustion, including the *Centrafarm* cases).

163. *See* Baudenbacher, *supra* note 71, at 662 (discussing the use of common control and the material differences exception by the United Kingdom), 682–86 (discussing "material difference" under U.S. law); Donnelly, *supra* note 63, at 456–58 (discussing what constitutes a material difference under U.S. law), 478–80 (discussing repackaging concerns under E.U. law); Littman, *supra* note 87, at 499–500 (noting that the E.U. approach should follow the "material difference" split).

164. The *Report* notes the consumer confusion basis for trademark law. *See Report*, *supra* note 9, at 628–29. The consumer protection arguments apparently were rejected based on lack of empirical evidence of a "systematic problem." *See id.* at 629. This outcome erroneously mixes questions of proof and policy. The objectives of trademark law require the rule on exhaustion to prevent trademark use that may lead to consumer confusion. The courts in the

Trade secret law[165] presents yet a third policy framework. Trade secret law is predicated on preventing "takings" which interfere with leveraged use of confidential information, threaten public order, or give rise to inefficient investment in self-help protection.[166] Involuntary takings, addressed by the latter two policy objectives, do not involve holder authorized product "first sales" and, consequently, do not trigger exhaustion concerns.[167] Holder or licensee[168] sales of products incorporating the trade secret, however, do raise the issues. The related leveraging policy objective dictates the response. Unlike patent law, the holder's trade secret right does not automatically apply "against the world." It only provides presumptive enforcement of *quid pro quo* restrictions on use or disclosure imposed in connection with permitting access to holder controlled information.[169] The conflict is readily apparent: trade secret leveraging objectives specifically support (and require) presumptive enforceability of the very restrictions first sale exhaustion would eliminate.[170] Preventing holder enforcement of restrictions on the

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United States and the E.U. have long followed precisely this approach. *See supra* notes 161–163.

165. TRIPS expressly covers "Protection of Undisclosed Information." *See* TRIPS Agreement, *supra* note 1, art. 39. Because of substantial variations in national views concerning the existence, to say nothing of the reach, of trade secret protection, prior to TRIPS only NAFTA had expressly addressed the subject. *See* Long, *supra* note 5, at 144 n.53. As I argue elsewhere, the recognition of trade secrets as part of intellectual property law is fully justified. *See* Chiappetta, *supra* note 151, at 69–75. Consequently, these rights must also be considered in terms of exhaustion.

166. The policy justifications for trade secret law have been quite confused, relying on "incentive to invention and commercial ethics." If this is correct, at least the incentive to invention justification would track the same arguments concerning exhaustion as made for patent and copyright law. However, justifying trade secret law based on incentive to invention creates unacceptable overlaps with patent law and surplus incentives. Instead, the regime should be founded on the justifications noted in the text. *See id.*

167. It could be argued that because of its particular characteristics merely invoking trade secret protection to prevent involuntary takings technically involves its "use" by the holder. Because such claims do not seek to restrict a subsequent owner's use of a product voluntarily put on the market, for exhaustion purposes involuntary takings are more properly viewed as comparable to infringements in the other regimes.

168. The license of the trade secret information should not trigger exhaustion. A contrary result would limit trade secret value to the holder's direct use, entirely defeating the leveraging objective supporting the duty misappropriation right. *See* Chiappetta, *supra* note 151 at 97–103 (describing the appropriate limitations on the leveraging incentive).

169. The requirements include adequacy of notice and holder bona fides. *See id.* at 99–102, 121–27. Attempts to prohibit reverse engineering or to impose restrictions at mass trade secret licensing pose special policy problems and are exceptions to enforceability of quid pro quo restrictions. *See id.* at 127–32. These exceptions are, however, limitations on trade secret rights themselves, not an exhaustion argument.

170. *See id.* at 98–99. This argument is a policy "super-set" of the Report's argument in favor of permitting private agreement restrictions provided they are consistent with competition law. *See Report*, *supra* note 9, at 635. Trade secret law provides the necessary policy

free-flow of goods, including specifically those preventing flow of goods outside limited geographic markets, goes to the core of trade secret leveraging protection. The issue, therefore, is not whether trade secret rights should be exhausted, but whether they should exist at all.[171] Once it is determined they should, only a rule against their "exhaustion" makes logical sense.[172]

Even within the United States' coherent market-utility framework, each regime's distinct implementation of that policy requires separate weighing of its specific social welfare benefits against the costs of restricting free flow of goods. A uniform exhaustion response covering all regimes depends therefore on coincidence, not overlapping justifications. As the above discussion demonstrates, such a lucky coincidence does not exist. Consequently, only a collection of varying, regime-dependent exhaustion rules can appropriately reflect the range of supporting justifications.

Comparing Apples to Apples: It is a tautology to say that international exhaustion should apply only to parallel national IPRs.[173] When applying this directive, however, we need to guard against over-reliance on the labels applied to the IPRs at issue. The above demonstrated need to focus on the specific justifications when formulating appropriate "rules of exhaustion" for a particular IPR regime, extends with just as much force to ensuring the proper application of those rules.

The E.C.J. decision in *Warner Brothers. v. Christensen*[174] provides a good example. The plaintiff held both United Kingdom (U.K.) and Danish "copyrights" in a particular film. The holder authorized the sale of videocassettes in the U.K. under its U.K. rights. Defendant lawfully purchased authorized cassettes in the U.K. and exported them to Denmark for rental. Danish law, unlike U.K. law, provided a specific right to

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justification for public law enforcement of private restraints found lacking in the Report. *See id.* at 631–32.

171. The contest is not between the benefits of extended enforcement and free-flow of goods, but the net effect of permitting restrictions on free-flow of goods under the original right. Much simplified, the supporting argument is that, properly limited by notice and bona fides, without the encouragement trade secret law provides to share the necessary controlled information the goods whose flow is restricted by agreement would not exist in the first place. *See* Chiappetta, *supra* note 151, at 97–99.

172. It would be possible, of course, to limit trade secret rights to non-geographic restrictions on use (product lines). These limits, however, would ignore the basic leveraging argument that without enforceability much, if not all, of the very trade to be freed from restriction would not exist at all. *See id.*

173. This maxim is so strong that most commentators simply assume it within the structure of their analysis, discussing patents, copyrights and trademarks separately. *See, e.g., Report, supra* note 9, *passim*; Donnelly, *supra* note 63, *passim.*

174. Case 158/86, Warner Brothers Inc. v. Christiansen, 1988 E.C.R. 2605 (1998). *See Report, supra* note 9, at 625–26 (discussing the case and its implications).

prevent rentals. The holder asserted those Danish rights precluded any rental in Denmark of the cassettes purchased in the U.K. The E.C.J. noted that, whereas the U.K. IPR was limited to sales, the Danish IPR focused specifically on providing the holder a "satisfactory share" of the distinct rental market.[175] The Court therefore concluded that, to avoid rendering the distinct Danish rental right "worthless," it could not be exhausted by a first sale under the U.K. rights.[176] As the case demonstrates, the critical exhaustion question is not whether both rights are labeled "copyrights" but the congruence (or incongruence) of the underlying policy justifications. Absent parallel policy objectives, there simply are no parallel IPRs to exhaust by a first sale.[177]

The Harmonization Solution: The *Report* concludes that Christensen demonstrates "a certain harmonization of national policies on questions such as video rental rights may need to be reached before a uniform 'first sale' rule can be recognized with respect to videocassettes."[178] This observation, although accurate, ignores both the broader range of similar disconnects among national rights and the possible general application of the suggested policy harmonization solution to the entire exhaustion problem.[179] Specifically, the substantive harmonization mandated by

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175. *See Christiansen*, 1988 E.C.R. at 2612.

176. *See id.* at 2630.

177. The same consideration is visible within U.S. copyright law. A copyright holder is granted a variety of rights, including the right to copy and perform. The first-sale of a particular recording does not "exhaust" the copyright holder's right to prevent public performances of the composition. *See* 17 U.S.C. §§ 106(1), 106(4), 109 (1994); ROBERT P. MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE, 444–51 (describing the numerous complexities of the performance rights in music). *See also* Case 402/85, G. Basset v. SACEM, 1987 E.C.R. 1747, [1987] 3 C.M.L.R. 173 (1987)(holding similarly, based on the even stronger French right to royalties on the sale as well as the playing of a recording to a paying audience).

178. *See Report*, *supra* note 9, at 626. TRIPS expressly provides for rental rights regarding computer programs and cinematographic works but not for sound recordings. *See* TRIPS Agreement, *supra* note 1, art. 11.

179. Not coincidentally, the E.U. has noted that harmonization, or more precisely approximation, of national laws is an essential feature of creating the single market predicate to a rule of "internal" exhaustion. *See* Maastricht Treaty, *supra* note 64, art. G(B)(2) (amending the EEC Treaty, *supra* note 81, art. 3); Baudenbacher, *supra* note 71, at 656–58 (noting particularly that the E.U. Trademark Directive relies on harmonization to eliminate barriers to free movement); Ulrich Loewenheim, *Harmonization and Intellectual Property in Europe*, 2 COLUM. J. EUR. L. 481, 481–83 (1996). A natural extension of national law harmonization is the creation of E.U.-wide IPRs. *See* Loewenheim, *supra*, at 483–84 (discussing efforts to create a Community patent and trademark). Internal market harmonization of IPRs is also readily apparent in the United States as well, including the direct federalization of patent and copyright law, *see* 35 U.S.C. §§ 1–376 (1994); 17 U.S.C. §§ 101 et seq. (1994), the creation of national trademark rights under the Lanham Act, 15 U.S.C. §§ 1051–1127 (1994), and, most recently, in the Economic Espionage Act of 1996, 18 U.S.C. §§ 1831 et seq. (1998), which made trade secret misappropriation a federal criminal offense.

TRIPS may indicate fundamental accord among the signatories that U.S.-style economic utility principles justify and define the proper objectives for WTO-wide IPRs.[180] Not only would such a consensus offer a basis for achieving full harmonization of national IPRs, it might provide the basis for agreement concerning a single set of properly nuanced international rules on their exhaustion as outlined above.

B. *The Allocation Problem*

Closer analysis reveals, however, that utility-based harmonization of national IPRs is not sufficient to guarantee consensus on international exhaustion. As discussed earlier, distributional concerns drive exhaustion decisions, with each decisionmaker considering not merely whether common market or IPR primacy maximizes overall wealth, but also how it will fare distributionally under each alternative.[181] At the international level, the vital common enterprise distributional boundary will be at best regional and, most frequently, national. The members of the international trading community have no joint sharing agreement concerning the distribution of the resulting free trade and IPR benefits.[182] Consequently, the WTO institutions, unlike those of a national government or the E.U., cannot be given common enterprise decision-making authority on exhaustion.[183] Instead each member retains and exercises the right to maximize its own interests.[184]

The international exhaustion disagreement therefore rests, at least in part, on the unresolved profoundly different benefit allocations between IP "haves" and "have-nots" under the two primacy alternatives. Those having little domestic IP industry and premium domestic IP-related goods markets are generally enthusiastic supporters of common market

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180. The TRIPS rights are predicated on agreed policy predicates among the developed nations. *See* Reichman, *Securing Compliance*, *supra* note 17, at 586 (noting that the TRIPS IPRs reflect the standards agreeable to the developed nations); Ullrich, *supra* note 5, at 184 (making a similar argument). Although much of the basic structure comes from international treaties, such as the Berne and Paris Conventions, the U.S. economic utility policy influence and limitation is apparent in a variety of places, for example the express failure to cover moral rights. *See* TRIPS Agreement, *supra* note 1, art. 9(1); *cf.* Long, *supra* note 5, at 153.

181. *See supra* notes 79–96 and accompanying text (discussing the importance of common enterprise to reaching resolution).

182. *See id.* The WTO dispute resolution mechanisms, particularly those related to TRIPS, focus on enforcement of treaty obligations, not making adjustments for potentially inequitable results from their application. *See* Matthijs Geuze and Hannu Wager, *WTO Dispute Settlement Practice Relating to the TRIPS Agreement*, 2 J. INT'L ECON. L. 347 (1999).

183. *See* Report, *supra* note 9, at 618.

184. *Cf.* Long, *supra* note 5, at 162–63 (noting that nations pursue their self-interests first). Not incidentally, the creation of the TRIPS minimum IPRs itself is an expression of precisely this type of national self-interest, in this case the developed nations seeking to prevent "free-riding" on their investment in IP by the developing nations. *See supra* notes 92–94.

primacy free-trade exhaustion. Those with strong domestic IP industry and an efficient, relatively low-priced domestic IP-related goods market, will quite properly (on self-interested economic grounds at least)[185] seek to protect the net in-bound wealth transfer to their IP creators made possible by IPR primacy non-exhaustion market segmentation.[186]

Even the most ardent market economics adherent recognizes that although the theory provides a mechanism (efficiency) for assessing the economic effects of these conflicting positions, it does not definitively resolve them.[187] The claim that removing IPR impediments to the natural operation of the market will maximize aggregate wealth creation, even if true,[188] hardly dictates a participant will agree to such a system when other approaches offer greater individual benefits.[189] In terms of absolute quantity, obtaining a bigger piece of a smaller pie may be preferable to a smaller piece of a bigger one.

The *Report* specifically acknowledges the problem, noting that its proposed rule of international exhaustion "may have the effect of transferring wealth from more highly developed countries to less highly developed countries."[190] It goes on to ask the question: "However, assuming arguendo that a rule of international exhaustion ... would

185. *Cf.* Abbott, *supra* note 30, at 386 (noting the OECD countries "cannot be faulted for pursuing the TRIPS agreement"). It is worth noting that the developing countries also resort to barriers to trade such as tariffs to enhance their own self-interests.

186. We should not, however, lose track of the fact that these positions are largely an artifact of the Western definition of protectable IP. If protection were extended to matter found in less industrial cultures, such as folk remedies, stories, designs and the like, the question would be much more complex for both the developed and the developing countries. *Cf.* Long, *Cultures*, *supra* note 95, at 263–80 (arguing for adjustment of intellectual property laws to protect developing country cultures).

187. *See, e.g.*, RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW (5th ed. 1998) 14–15, 26–29. Judge Posner points out that Kaldor-Hicks potential Pareto superiority reflects but does not provide normative guidance as to appropriate distributional patterns. Therefore, although efficiency analysis provides important inputs as to economic costs and benefits of different decisions, the final distributional decision remains one of "ultimate" values and outside the competence of market economics theory. *See id.* at 16; Chiappetta, *supra* note 151, at 93 n.154.

188. *See* POSNER, *supra* note 187, at 17–23, 29–31 (noting criticisms of the economic approach).

189. It could be argued that IPRs represent part of the *a priori* decision on resource distribution (like other property rights, they create resource "ownership" and control, in this case over IP). In this light, non-exhaustion wealth transfers are merely part of the efficient allocation process of the market by recognizing the value of intellectual property. This, however, presupposes creating independent national IPRs is the appropriate resolution of the "public goods" market failure problem faced by IP creators. *See supra* note 153 (discussing the public goods problem). This, in turn, raises the question of why the countries with minimal domestic IP industries agreed to the creation of TRIPS mandated IPRs in the first place. *See infra* notes 197–213 and accompanying text (exploring the coercive nature of the TRIPS accord).

190. *Report*, *supra* note 9, at 624.

benefit the developing countries at some expense to the industrialized countries, is this a reason to oppose such a rule?"[191] Professor Abbott responds that the answer is subjective, varying depending on whether local or global interests are to be preferred.[192] He concludes that adoption of the proposed exhaustion rule will therefore depend on whether local or global perspectives prevail within the arena of international politics. Although practically correct, this approach hardly provides normative support for the *Report*'s pro-exhaustion position.[193] Developing an appropriate response requires pressing beyond political power to determine whether group (global) or individual participant (local) interests *should* be preferred. An answer to this question and the dependent question of whether to favor international exhaustion requires further analysis.

C. *A TRIPS Conundrum and the Response: Persistence of Normative Differences*

The developed—developing country distributional conflict raises a basic conundrum. Why did the developing countries agree to TRIPS at all? Without the TRIPS mandated IPRs, the protectionist rights on which the developed countries' non-exhaustion position rests largely disappear, leaving the developing countries' free-market option by default. Unraveling the mystery of why the developing economies did not insist on resolution of the exhaustion allocation question before assenting to the rights which create the problematic wealth transfers reveals how much normative work remains, not only on exhaustion, but on the overall international intellectual property agenda.

One obvious explanation would be that the developing countries believed they stood to gain more from the creation of mandated WTO-wide minimum IPRs than they would lose in wealth transfers to the IP creators in developed nations. In effect, their share of the resulting overall increase in wealth allowed them to ignore any inequities in allocation. The history of the TRIPS negotiations fails to support this position. If the developing countries viewed WTO-wide harmonized IPRs as being to their benefit, they would have been agreed upon and implemented energetically (if not unilaterally) without the acrimony which character-

191. *Id.*

192. *See id.*

193. The subjective answer to the question is an emphatic, contradictory preference for "local" interests from every WTO member who stands to lose under the exhaustion rule whether or not they have the political power to implement their preference. Professor Abbot does not, however, appear to view power-based decisions (political or otherwise) as a basis for questioning the normative foundations for the *Report's* implicit assumption that "global" interests should be preferred. *See id.*

ized the actual discussions.[194] Another alternative might be that the developing nations received other valuable compensating concessions.[195] Both the meagerness of the *quid pro quo* and its non-delivery, however, make it unlikely that the developing countries viewed the promises received as a fair trade for the value they surrendered.[196] The answer to the mystery does not lie in the developing countries' pursuit of self-interest. It must be found elsewhere.

A more enlightening approach lies in questioning the basic assumption that TRIPS reflects multilateral consensus: that developing nations actually signed on despite continued disagreement. Paul Geller's "legal transplant" framework reveals how this might have come to pass.[197] The TRIPS accords involve a "legal transplant," inserting foreign, utility-based IPR regimes into the developing economies' body of law.[198] One important measure of transplant success is whether the recipient has merely "simulated [the] legal jargon, but not necessarily the values underlying [the] law,"[199] in essence only feigning agreement. Geller's observation that this behavior is particularly likely when coercion is present provides the missing connection necessary to resolve the mystery. Although TRIPS is articulated in terms of "agreement," the conundrum of developing country assent evaporates if it actually is no more than grudging acquiescence in face of unrelenting developed country demands for stronger IPRs under the threat of trade reprisals if agreement

194. *See supra* notes 44–61 and accompanying text (describing the TRIPS negotiation process).

195. *See* Abbott, *supra* note 30, at 387–88 (1996) (describing the range of concessions obtained in return, including particularly the United States agreement to press the European Union for reductions in agricultural subsidies, concessions on tropical product imports and quotas on textile products).

196. The agricultural subsidies are still hotly debated in the current WTO meetings. *See* Elizabeth Olson, *Global Trade Harmony? Yeah, Right*, N.Y. TIMES, Nov. 13, 1999, at C2; Elizabeth Olson, *World Trade Group's Leader Says Discord Threatens Talks*, N.Y. TIMES, Nov. 6, 1999, at B18. It is equally unlikely that the transition periods provide the developing countries a net gain under TRIPS. *Cf.* Abbott, *supra* note 40, at 387–88 (noting that the substantial transition periods represent an important concession to developing country interests). The transition periods may have made TRIPS more palatable through deferral of implementation. It is unlikely, however, that many of the developing economies actually expected to join the ranks of the developed world within the transition periods as would be necessary to participate in the real benefits of TRIPS-enhanced IP protection. Consequently it is unlikely WTO membership itself is an adequate "carrot." *But see* Vicente, *supra* note 79, at 1109 (suggesting that it might be). Without actual delivery of the necessary trade liberalizations benefiting developing countries even MFN status does not account for much. Certainly the dispute resolution mechanisms offer little to the parties most likely to be the defendants.

197. *See* Geller, *supra* note 19, at 199.

198. *See id.* at 199 (stating that a "legal transplant" involves the introduction of a legal notion or rule developed in a "source" body of law into another "host" body of law).

199. *Id.* at 208.

were not achieved.[200] The need to "placate momentarily better-equipped Western invaders"[201] is no less imperative when the threats involve economic sanctions rather than military might.[202]

In addition to clarifying the developing countries' behavior, coercion also explains the remarkably un-WTO, non-free-trade TRIPS outcome. The accord is best viewed as a successful effort by the developed countries to use the WTO treaty machinery to pursue other countervailing policies.[203] TRIPS without agreement on exhaustion was not added to the WTO agenda to enhance trade, but specifically to limit it. IPR protections for IP creators, regardless of the justifications, run counter to basic free trade in related goods and services. When coupled with a failure to agree on IPR exhaustion, those protectionist objectives become expressly preferred in the global marketplace. Whether or not the overall benefits from pursuing these objectives outweigh the costs, the distributional effects very clearly favor IP creators at the expense of consumers (in the short-run at least) and, consequently, generally developed countries over developing countries.[204] Instead of international consensus on IPR policy and related rights followed by inexplicable collapse on exhaustion, TRIPS reflects the least damaging "accord" available to parties holding inferior but not *de minimis* bargaining power.[205] After bowing to the IPR demands and facing intransigence but reduced vigor on exhaustion, the developing countries managed a "tie" on the latter.[206]

Geller's concept of "open-ended [legal] notions" provides additional support for this interpretation.[207] Open-endedness occurs as a way of

200. *See* Abbott, *supra* note 40, at 388–89; Doane, *supra* note 41, at 466.

201. Geller, *supra* note 19, at 208.

202. *See* ALFORD, ELEGANT OFFENSE, *supra* note 96, at 30–55; Alford, *Making Safe*, *supra* note 96, at 137–39; Jill Chiang Fung, *Can Mickey Mouse Prevail in the Court of the Monkey King? Enforcing Foreign Intellectual Property Rights in the People's Republic of China*, 18 LOY. L.A. INT'L & COMP. L.J. 613, 635–36 (1996).

203. *See* Brian F. Fitzgerald, *Trade-Based Constitutionalisms: The Framework for Universalizing Substantive International Law?*, 5 U. MIAMI Y.B. INT'L L. 111 (1997) (querying the appropriateness of including substantive issues, like intellectual property harmonization, in trade negotiations).

204. *See supra* notes 99–102.

205. *See* Marci A. Hamilton, *The TRIPS Agreement: Imperialistic, Outdated, and Overprotective*, 29 VAND. J. TRANSNAT'L L. 613, 616 (1996) (noting the "imposition" of Western intellectual property systems on other cultures); Jerome H. Reichman, *Intellectual Property in International Trade: Opportunities and Risks of a GATT Connection*, 22 VAND. J. TRANSNAT'L L. 747, 813 (1989) (noting that "imposition of foreign legal standards on unwilling states in the name of harmonization remains today what Ladas deemed it in 1975, namely a polite form of economic imperialism.").

206. The individual decision-making compromise permits a developed county to protect its domestic market but gives it no control over parallel trade between "foreign" markets.

207. *See* Geller, *supra* note 19, at 209.

permitting agreement without full resolution in "hard legal cases, where the meanings of key terms are disputed."[208] TRIPS failure to provide specific content for the many labels of intellectual property law[209] leaves it replete with "open-ended" language.[210] The copyright provisions offer a clear example. TRIPS offers an objective definition for neither the protected class of IP ("literary and artistic works") nor the hotly debated concept of "originality." Instead, negotiators retained the Berne *status quo*, incorporating it by reference.[211] Consequently, although there may be some convergence on basic rights granted, the question of precisely which works receive protection remains unresolved. As under Berne, applicability of the TRIPS-mandated rights can be interpreted more or less expansively depending on the role ascribed to the specific list of examples (representative or exhaustive) and the requisite level of originality imposed.[212] This outcome is precisely what would be expected in an agreement driven by parties having enough negotiating leverage to force agreement but inadequate power to prevail fully. Disagreements are sufficiently masked to permit signing an accord.[213]

Coercion means that the developed nations' justifications for IPRs were less than enthusiastically embraced by the developing countries. Although TRIPS edges the developing countries reluctantly toward economic utility-based IPRs, very real normative differences remain. Nations will therefore take every opportunity found in the flexibility of

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208. *Id.* Geller applauds the usefulness of the concept of permitting cultural flexibility in interpretation. *See id.* at 223. In the TRIPS context, that same flexibility, however, permits an unintended lack of agreement on fundamental principles. Once disagreement is acknowledged, I agree that the better approach is to permit the necessary "give" in application. *See infra* note 213 (discussing Geller's acknowledgement of the issue); *infra* note 286 and accompanying text (arguing for continued flexibility within an affirmative agreement to disagree on exhaustion).

209. *See, e.g.*, Keith Aoki, *(Intellectual) Property and Sovereignty: Notes Toward a Cultural Geography of Authorship*, 48 STAN. L. REV. 1293 (1996); Rosemary J. Coombe, *Challenging Paternity: Histories of Copyright*, 6 YALE J.L. & HUMAN. 397, 398 (1994) (book review) (explaining that many terms critical to intellectual property law have no "self-evident referents").

210. *See* Long, *Cultures*, *supra* note 95, at 263–68.

211. *See* TRIPS Agreement, *supra* note 1, art. 9(1); Geller, *supra* note 19, at 211. *See also* Long, *supra* note 5, at 153 (noting similar definitional concerns concerning coverage of computer programs).

212. *See* Geller, *supra* note 19, at 211–12, 221–23. Geller notes similar problems with the idea-expression dichotomy. *See id.*

213. Geller approves of this flexibility as a vehicle for permitting "creative options that come into play in concrete cases." *See id.* at 223. That view is appropriate if the parties understand they disagree. The "open-ended" language in the TRIPS context, however, is being used by the coerced party to "fudge" agreement. The consequence will be subsequent disputes over divergent interpretations and implementations. Geller seems to recognize this alternative use in his subsequent work. *See* Geller, *Patchwork*, *supra* note 115, at 85 (pointing out use of vague language in the WIPO treaties to permit divergent "patchwork" implementations).

the open-ended language to favor local interests and to heavily infuse implementation and enforcement decisions with domestic values.[214] The consequences for the exhaustion debate are substantial. As these national "adjustments" cause substantial variations, the easy solution of hustling the developing nations through the transitional phase so the international market can get on with making appropriate economic utility exhaustion determinations crumbles before a much more complicated calculus.[215]

Appreciating just how far apart the parties remain can best be understood by exploring the normative conflicts smoothed over by the accord. At the most obvious level, TRIPS expressly allows nations substantial latitude regarding national public health concerns and encouragement of "sectors vital to socioeconomic and technological development."[216] The *Report*'s reference to maximum price controls and compulsory licensing concerning patented innovations with implications for public health[217] provides two specific examples of how countries may exercise this freedom. Both exceptions represent clear local judgments that other, non-efficiency interests (greater patient access to medicines) should prevail over TRIPS-mandated IPR holder rights.

Although permitting such exceptions to reflect other competing policy considerations may be appropriate, the effect is to eliminate economic utility as the exclusive basis for making exhaustion decisions. The consequences of these "trumping" policies must, therefore, also be spe-

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214. *See* Abbott, *supra* note 40, at 399; Reichman, *Securing Compliance*, *supra* note 17, at 592. *See also* Geuze & Wager, *supra* note 182, at 349 (including a chart indicating that all TRIPS complaints are from developed nations, most particularly the United States, and that the defendants include mostly developing nations or those with non-U.S. IPR traditions).

215. It might be argued that the developing nations have already crossed this bridge by agreeing to TRIPS. There are two answers. First, the open-ended language makes pinning violators down with certainty problematic. Second, the international dispute resolution mechanisms are insufficiently authoritative that ensuring compliance by true recalcitrants pursuing their own best interests will likely involve a substantial degree of "self-help." At that juncture, all parties largely abandon the pretext of agreement. *See infra* notes 274–76 and accompanying text (discussing the need for cooperative solutions in international affairs).

216. Specifically, Article 8 provides for a wide variety of possible exceptions "necessary to protect public health and nutrition, and to promote the public interest in sectors of vital importance to their socioeconomic and technological development, provided that such measures are consistent with the provisions of this Agreement." TRIPS Agreement, *supra* note 1, art. 8. It is unclear what the last clause requires, but, if it is to have any content, it must permit some derogation of the TRIPS requirements. This interpretation is supported by Article 13, which permits limitations to the copyrights provided they are limited to "special cases which do not conflict with normal exploitation of the work and do not unreasonably prejudice the legitimate interests of the right holder." *See* TRIPS Agreement, *supra* note 1, art. 13. Similar or more extensive rights to impose limitations exist with respect to trademarks (art. 17), patents (arts. 27 and 30) and, generally, under article 40 with regard to adverse effects on trade.

217. *See Report*, *supra* note 9, at 635–36 (proposing an exception to the pro-exhaustion rule in these instances).

cifically considered when developing the international exhaustion position. For example, because a "forced" compulsory license or "limited" price-controlled exercise of an IPR may adversely affect the holder's incentive, perhaps those transactions should not be considered a triggering first sale for international exhaustion purposes.[218] On the other hand, such a "no-first sale, non-exhaustion" position ignores the distributional consequences in other nations. Perhaps rather than forcing them to bear the costs of providing supplemental IPR incentives, local interests would be better served by affording their citizens the same lower price and/or greater availability benefits by applying a free-trade rule of first sale exhaustion.[219]

The most significant normative obstacle to international consensus on IPR exhaustion, however, arises from the lack of agreement concerning the utility objectives themselves. These market-based justifications compete in the international arena with a wide variety of alternative views on intellectual property law.[220] An IP creator's investment can be seen as bestowing Lockean labor-based natural rights[221] or as an exercise of Hegelian personal liberty.[222] That creative activity could also be viewed as an interaction with, and confirmation of, a jointly owned cultural heritage,[223] the enhancement of national pride and community,[224] the exercise of a usufruct right in a trust granted by ancestors

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218. *See id.*

219. *See* Vicente, *supra* note 79, at 1118–19 (noting the subsidy effect of exhaustion on developing markets without substantial competition). The result might be different in a common enterprise environment. *See, e.g.*, Joined Cases 55/80 and 57/80, Musik-Vertrieb Membran GmbH v. GEMA, 1981 E.C.R. 147, [1981] 2 C.M.L.R. 44 (1981). The Advocate General argued no voluntary first sale of a recording under U.K. law which imposed a ceiling on royalties. The E.C.J. found exhaustion based on the holder having voluntarily elected to put the item on the intra-E.U. common market in the UK. *See Musik-Vertrieb Membran*, 1981 E.C.R. at 180, [1981] 2 C.M.L.R. at 67.

220. *See, e.g.*, David Hurlbut, *Fixing the Biodiversity Convention: Toward a Special Protocol for Related Intellectual Property*, 34 NAT. RESOURCES J. 379, 382–88 (1994); Long, *supra* note 5, at 148 n.68, 156–57; MERGES ET AL., *supra* note 177, at 2–21; Dale A. Nance, *Symposium on Law and Philosophy: Forward: Owning Ideas*, 13 HARV. J.L. & PUB. POL'Y 757, 761–67 (1990).

221. *See* John Locke, SECOND TREATISE ON GOVERNMENT 16–30 (Oskar Priest, ed., The Liberal Arts Press 1952); Nance, *supra* note 221, at 764 (1990); Adam D. Moore, *A Lockean Theory of Intellectual Property*, 21 HAMLINE L. R. 65 (1997) (arguing that the incentive based utilitarian theory of intellectual property rights should be abandoned in favor of a Lockean paradigm).

222. *See* GEORG WILHELM FRIEDRICH HEGEL, PHILOSOPHY OF RIGHT 235–36 (T. M. Knox, trans., Oxford University Press 1942); Nance, *supra* note 221, at 764. *See also* Long, *supra* note 5, at 157 (noting the Continental Western European adoption of this view in their moral rights tradition).

223. *See* ALFORD, ELEGANT OFFENSE, *supra* note 96, at 25–29.

224. *See* Fung, *supra* note 202, at 620–24; Andrew J. McCall, *Copyright and Trademark Enforcement in China*, 9 TRANSNAT'L LAW. 587, 589–92 (1996).

for the benefit of present and future beneficiaries,[225] or a contribution by the individual to the common heritage of mankind.[226] Alternatively, the creative act might even be interpreted as undesirable political dissention.[227] Although there may be points of common ground across this wide diversity of justifications, there are also many important differences. These differences will affect the level of commitment to the TRIPS utility harmonization and, in turn, the national perspectives on exhaustion.

The lack of congruence between market-economic based IPRs and "common culture" views of IP provides a notable example. As Professor Alford has eloquently explained, the individual incentive focus of much of Western intellectual property law conflicts in fundamental ways with the Confucian view that ideas are part of a common heritage and should be freely accessible to all civilized individuals.[228] It is not that the Confucian worldview does not understand the motivations or benefits of U.S. patent or copyright law; it simply does not accept or value them.[229] It may be that Chinese governmental reliance on Confucian arguments disguises concerns that individual ownership (including through IPRs) is a threat to the legitimacy of the existing political regime[230] or acts as cover for wholesale copying as an engine for economic growth.[231] Regardless of governmental motivations, however, if the cultural norm among the "ordinary Chinese" conflicts with notions of individual ownership, the likelihood of a successful utility IPR model transplant is exceedingly low.[232] The resulting restrictions will appear not only unjus-

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225. *See* Hurlbut, *supra* note 220, at 385.

226. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 60–61; Alford, *Making Safe*, *supra* note 96, at 140; McCall, *supra* note 224, at 591.

227. *See* Alford, *Making Safe*, *supra* note 96, at 143–44.

228. *See* ALFORD, ELEGANT OFFENSE, *supra* note 96, at 8–29; Alford, *Making Safe*, *supra* note 96, at 140. *See also*, Fung, *supra* note 202, at 623–24; Hamilton, *supra* note 205, at 619–20; McCall, *supra* note 224, at 590–92.

229. *Cf.* Rosemary J. Coombe, *Intellectual Property, Human Rights, & Sovereignty: New Dilemmas in International Law Posed by the Recognition of Indigenous Knowledge and the Conservation of Biodiversity*, 9 IND. J. GLOBAL LEGAL STUD. 59, 80 (1998) (noting that the "Western epistemology" of predicating IPRs on notions of individual creation conflicts with the basic communal orientation of these cultures).

230. *See* Alford, *Making Safe*, *supra* note 96, at 140–41.

231. That a distinction between "common heritage" and ulterior economic growth motivations actually exists is not entirely clear. The common heritage position includes the benefit to the common good to be obtained by permitting developing economies to grow by using the developed world's IP. *See* McCall, *supra* note 224, at 591. It is only from the utility-individual rights perspective that this use might be seen as unfair "free-riding." *See* Tara Kalagher Giunta & Lily H. Shang, *Ownership of Information in a Global Economy*, 27 GEO. WASH. J. INT'L L. & ECON. 327, 327–33 (1994); Marshall A. Leaffer, *Protecting United States Intellectual Property Abroad: Toward a New Multilateralism*, 76 IOWA L. REV. 273, 282 (1991).

232. *See* Alford, *Making Safe*, *supra* note 96, at 142.

tified, but contrary to the social good. It would not be surprising, therefore, to find Chinese government interpretations and enforcement actions that eviscerate TRIPS Western-style minimum IPRs applauded rather than reviled.[233]

Similar conflicts occur when national norms place unselfish contribution to overall social welfare above individual self-interest.[234] Within the former framework, all the necessary motivation for the creative act comes from improvement of the common good. Individual economic incentives are unnecessary to spur fully committed application of time and expertise. Consequently, knowledge can be unfettered by intellectual property exclusivity and remain freely available to all members of society.[235] A legal realist must suspect that this position might also provide an expedient rationalization for fueling domestic economic growth by avoiding payment of rents to foreign IP creators.[236] However, this accusation, while certainly appropriate in some instances, ignores two far more crucial points. First, collectivism, even in this market-inefficient, re-distributional formulation, still represents a legitimate alternative view concerning the appropriateness of IPRs.[237] There is nothing obviously "wrong" in arguing that less economic wealth shared more "fairly" is better than more economic wealth distributed "inequitably."[238] Second, adherence to a collectivist position, no matter why held or advocated,

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233. Alford points out that, ironically, TRIPS may therefore actually permit government repression of ideas through selective enforcement. Thus, the open-ended language of TRIPS can allow the government to have it "both ways." *See id.* at 143–45.

234. *See* Coombe, *supra* note 229, at 80 (noting that many cultures view "innovations . . . [as] products of the group . . . to meet practical shared needs"); Hurlbut, *supra* note 220, at 385–89 (stating that this view is consistent with Islamic and some African views as well); Long, *supra* note 5, at 156–57 (discussing the views of the Maori in New Zealand).

235. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 60–61.

236. *See* Long, *supra* note 5, at 163; *supra* note 231. That same realist position would also query how the alignments might alter if the definition of protectable IP were to change. United States patent jurisprudence expressly articulates the common heritage view in connection with the unpatentability of laws of nature and abstract ideas. *See, e.g.*, Funk Bros. Seed Co. v. Kalo Inoculant Co., 333 U.S. 127, 130 (1948) (stating that such subject matter is "free to all men and reserved exclusively to none"); Chiappetta, *supra* note 152, at 131–32 (discussing the laws of nature, abstract idea exception in United States patent law). It is not, however, a forgone conclusion that those types of discoveries should not be protectable. *See* Long, *supra* note 95 at 268–79 (discussing the possible expansion of IPRs to protect indigenous cultures). If, for example, a decision was made to incentivize investment in more rapid discovery of natural medicines, it might well make a variety of folk remedies protectable. It is highly likely in such a case that the current defenders of individual incentives would be heard to raise the same "common heritage" arguments they currently disdain.

237. *See* Hurlbut, *supra* note 220, at 388.

238. All the words in quotes involve value judgments. The true collectivist will argue that there should be no diminution of creative efforts and wealth if community interests properly motivate individuals. Perhaps more importantly, it can be argued that less economic wealth traded for increases in respect for other values is a "desirable" exchange.

will have a significant effect on the exhaustion debate. If a society does not find value in individual ownership of IP, whatever the reason, it is unlikely to be generous in the interpretation or energetic in the enforcement of utility based IPRs. The related position on exhaustion will be favored: the quicker unnecessary restraints on our "common heritage" are removed, the better.

Japan, on the developed side of the economic divide, provides an interesting example of the difficulty in reconciling these conflicting utility-based individual incentives and more collectivist conceptions of the human enterprise. More than other Asian nations, Japan has followed the developed country IPR model, with largely comparable laws on its books.[239] The Japanese have, however, historically valued community, craftsmanship, incremental improvement and adaptation over the individualism and revolutionary innovation which forms the centerpiece of United States and European incentive focused intellectual property laws.[240] The result is a hybrid interpretation of Japanese IPRs, incorporating elements of both the utility model incentives and communitarian views.[241] For example, Japanese patent law respects the inventiveness of improvements by lowering the threshold for obtaining protection but seeks to foster additional application by narrowly interpreting the scope of the resulting rights.[242] Consequently, Japan's "mixed" focus may permit more ready philosophical acceptance of international exhaustion and its tempering of economic market incentives despite its developed country intellectual property legal structure.[243]

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239. Although there are differences, the "Western" complaints about Japanese intellectual property law are largely related to "protectionist" implementation. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 409–13. As discussed below in the text, these complaints go, in part at least, to differences in the values applied when drawing the individual versus social balance.

240. *See* Toshiko Takenaka, *Does a Cultural Barrier to Intellectual Property Trade Exist? The Japanese Example*, 29 N.Y.U. J. INT'L L. & POL. 153, 157, 164, 167. Takenaka argues that these views are more economic than cultural (providing a means to catch up with developed economies). *See id.* at 167. However, his reference to different values indicates that whatever the origins, the views have become a part of at least the commercial culture in Japan, dictating a different approach to IPRs. *See id.* at 175.

241. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 413 (including the following interesting quote from Akira Okawa, former chief examiner in the Japanese patent office: "In Japan, we have a balance between the rights of patent holders and society. In the U.S., they don't care about society.").

242. *See id.* at 409–13; Takenaka, *supra* note 240, at 168 (noting criticism of Japan for narrow reading of patent claims).

243. It is good to remain somewhat circumspect, however, and remember that distributional consequences may affect the definition of the relevant "community." A failure to note this disconnect between "good of society" rhetoric and the practical distributional effects may explain, in part, the Japanese Supreme Court's decision in favor of international exhaustion

The normative differences are not, however, limited to Eastern common heritage and collectivism versus Western individual incentive viewpoints; the world is a much more complicated place than that. Important divisions are equally visible among the members of the Western world.[244] The best example[245] is found in the continuing disagreement over moral rights in copyright law.[246] Moral rights, including the rights of publication (divulgation), attribution (paternity), integrity and withdrawal,[247] are predicated on natural or Hegelian rights of the author as creator of the work.[248] These systems, associated most strongly with France but present in a variety of other jurisdictions as well,[249] provide extensive post-sale involvement of the author in decisions concerning distribution and use of the work.[250] As a consequence, exhaustion analysis under the moral rights approach differs dramatically from the utility "incentive to invent" justification supporting U.S. copyright law.[251] The

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despite the harm to the domestic IP industry. *See* Tessensohn & Yamamoto, *supra* note 72, at 746–47 (noting the Supreme Court's inexplicable enthusiasm for a "truly global economy").

244. *See, e.g.*, Long, *supra* note 5, at 137–47, 155 (noting in particular the North-North debate).

245. This is only one example among many. The different positions regarding whether plants and animals are proper subject matter stem from philosophical differences over the propriety of genetic engineering and the patenting of "living things." These disagreements were sufficiently intractable that TRIPS ultimately left the matter to national discretion. *See* TRIPS Agreement, *supra* note 1, art. 27(3). Other "North-North" disagreements needing resolution include: the patentability and copyright protection of computer programs (apparently, they are protected), *see* TRIPS Agreement, *supra* note 1, arts. 10, 27; first-to-file versus first-to-invent and degree of novelty in patent law; reverse engineering, originality in copyright law and use in trademark law. *Cf.* Long, *supra* note 5, 137–47. Even within the E.U., substantial work (including arm-twisting) has been required to resolve differences among the Member States. *See, e.g.*, Loewenheim, *supra* note 179, at 484–87; Verstrynge, *supra* note 76, at 17.

246. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 127; Long, *supra* note 5, at 157–58. As Professor Long points out, the philosophical differences are so strong they even extend to disagreement over the appropriate labels for the author's rights. *See* Long, *supra* note 5, at 148.

247. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 137–38; Long, *supra* note 5, at 148.

248. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 130–33; Jane C. Ginsburg, *A Tale of Two Copyrights: Literary Property in Revolutionary France and America*, 64 TUL. L. REV. 991, 991–92 (1990); Long, *supra* note 5, at 157.

249. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 137–38 (noting that moral rights also appear in a variety of civil law jurisdictions in Latin American, Africa and East Asia).

250. All rights place obligations on subsequent purchasers. The rights of disclosure and withdrawal may permit the author to prohibit or affect sales. *See id.*, *supra* note 5, at 138–39. Additional "natural law/personhood" based rights, such as the French *droit de suite*, impose even more significant barriers to free-flow of goods. *Cf. id.*, *supra* note 5, at 173–76.

251. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 132; Cate, *supra* note 5, at 5–6; Ginsburg, *supra* note 248, at 991–94 (arguing, however, that in practice the regimes may not diverge as dramatically as one would expect). The United States provides

latter, viewing the author's creation as an economic product, can readily accommodate first sale exhaustion based on a demonstration that additional incentive is not required.[252] The former, which grants the author a right to protect the self-expression and personal identity manifested in the creation, provides little justification for curtailing or eliminating this control, even after a first sale.

The division on moral rights does not stop, however, with the sharp divide between utility and author's rights. The European moral rights advocates themselves disagree. France takes the dualist view that moral rights are entirely separate from the economic "exploitative" rights.[253] Germany, however, is monist, treating moral rights simply as part of the economic bundle.[254] As a consequence, moral rights may be extinguished as part of an assignment in Germany, but survive (to the horror of the uninitiated purchaser) in France.[255] Once again, the differing positions offer varying degrees of flexibility on the exhaustion question.

Adding the debates over "authorship" to the mix,[256] it is apparent that these Western disagreements are not minor variations on a single theme, but reflect fundamentally different views of the objectives of the wide-variety of rights granted under the "copyright" rubric. Although France,

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only minimal recognition of moral rights, despite its accession to Berne, which expressly recognizes moral rights. *See* Berne Convention, *supra* note 5, art. 6*bis*; Berne Convention Implementation Act of 1988, Pub. L. No. 100-568 (codified at 17 U.S.C. §§ 101 et seq. (1994)). The United States' limited acknowledgement of moral rights can be found in the Visual Rights Act of 1990. *See* 17 U.S.C. § 106A (1994). *See also* Cate, *supra* note 5, at 5–6; MERGES ET AL, *supra* note 177, at 451–56. The United States has no *droit de suite*. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 163–68. Ironically, in patent law, the United States' all but unique "first to invent" rule finds justification not merely in a Jeffersonian preference for the "little person" who may not have the necessary resources to outrace the commercial titan, but in the natural right to ownership of the "true inventor." *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 401–04. *See also* Geller, *Patchwork*, *supra* note 115, at 85 (noting that the differences between European and U.S. views on copyright go well beyond the moral rights debate).

252. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 133–35. Under a utility approach, it can even be argued that no rights of any kind are appropriate. *See* Breyer, *supra* note 157, at 299.

253. *See* INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 141–44.

254. *See id.*

255. *See id.* The E.C.J. faced the monist/dualist moral rights division in Musik-Vertrieb Membran GmbH v. GEMA, Joined Cases 55/80 and 57/80, 1981 E.C.R. 147, [1981] 2 C.M.L.R. 44 (1981). The French asserted that intra-E.U. exhaustion should not apply because of the implicated, and distinct, moral rights. The court rejected the argument, noting the actual issue involved only economic rights to royalties that were exhausted under the intra-E.U. common market primacy principle. The decision does not resolve whether the non-economic moral rights remained intact. *See* John E. Somorjai, *The Evolution of a Common Market: Limits Imposed on the Protection of National Intellectual Property Rights in the European Economic Community*, 9 INT'L TAX & BUS. L. 431.

256. *See, e.g.*, INTERNATIONAL INTELLECTUAL PROPERTY LAW, *supra* note 5, at 123–33; Aoki, *supra* note 209, at 1322–28.

Germany and the United States may see eye-to-eye on the utility justifications for the economic sticks in the author's bundle of rights, each party's other eye is looking in an entirely separate direction. These value differences were strongly enough held that the issue, like exhaustion, was expressly left unresolved in TRIPS.[257]

IV. WHERE DO WE GO FROM HERE? A TWO-PART PROPOSAL FOR MOVING FORWARD

Economic power may have been sufficient to force the utility IPR transplant. However, conflicts over distributional considerations and substantial philosophical differences leave it an open issue as to whether the transplant will "take." TRIPS may mute alternative views, but its open-ended language leaves them far from silenced.[258] The underlying disagreements will profoundly affect national interpretation and enforcement of the accord.[259] Not only will these national perspectives and interests lead to divergent views on exhaustion directly, but the related "tinkering" with the rights or their enforcement will affect the "apples to apples" considerations even among those that appear to agree.[260]

Vigorous policing of "recalcitrant" implementations through increased economic (or other) coercion likely will strain the already "open-ended" TRIPS accord to the breaking point. Rather than generating further acquiescence, such action is far more likely to give rise to increased resistance to this "polite form of imperialism."[261] A successful approach to international exhaustion must instead step back and expressly acknowledge the disagreements, seeking an understanding that takes into account all relevant considerations. With these requirements in mind, the following proposal is offered addressing the procedural and substantive aspects of the undertaking.

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257. *See* TRIPS Agreement, *supra* note 1, art. 9(1) (expressly excluding the moral rights protected under Article 6*bis* of the Berne Convention).

258. *See* Reichman, *Bargaining Around*, *supra* note 21, at 18–24.

259. *See id.* at 15; Abbott, *supra* note 40, at 399; Hamilton, *supra* note 205, at 615–17; sources cited *supra* note 214.

260. *See* Fitzgerald, *supra* note 203, at 159 (indicating that "ubiquity" may mitigate the problem in some instances); Long, *supra* note 5, at 158–59 (noting the effect of cultural differences on the enforcement of facially consistent laws).

261. *See supra* note 205 and accompanying text (discussing the Ladas "imperialism" point); Reichman, *Enforcing*, *supra* note 5, at 339–40; Reichman, *Securing Compliance*, *supra* note 17, at 592; Vicente, *supra* note 79, at 1108 (noting that Argentina's reaction to continued U.S. pressure was to threaten to extend transitional implementation of TRIPS).

A. *An Operational Approach—Process Considerations*

International commerce will not stand still while governments thrash out the details of a mutually acceptable resolution. Failure to reach a consensus is, therefore, a decision. As trade continues, national autonomy on IPR exhaustion will be exercised. Procedural refinements to this *de facto* operational non-agreement are critical if informed and useful ongoing discussion is to occur in the context of the resulting patchwork of rules. These refinements should expressly target ensuring transparency and internal logical consistency in national and regional decision-making.[262] Disclosing and articulating the applicable justifications and the rationales for outcomes will expose the differences driving conflicting outcomes, thus permitting the larger discussion to take them into account properly. Three specific process improvements accomplish this task:

Justifications, not labels: To ensure analytical coherence and consistency, decision-making must avoid "open-ended" labels and focus directly on justifications. Only truly "like rights," those emanating from similar justifications, should be treated as parallel rights for exhaustion purposes.[263] The IPR classification schema must therefore be sufficiently fine-grained to make the necessary distinctions. In short, for these purposes, a copyright is not a copyright is not a copyright.[264] A "copyright" based on economic incentive to creation cannot also find support in the creator's Lockean natural right to a return from his efforts or Hegelian moral rights to personal integrity. Jumbling these three justifications into one "copyright" label leads to unavoidable and serious analytical confusion. The incentive approach dictates exhaustion at the point when the proper balance between incentive and access is achieved. Natural labor rights must find the extent of a "fair" return. Moral right to integrity argues strongly against any exhaustion even in the face of excess incentives or returns. The classification schema must therefore generate a distinct right for each justification: separate economic, labor, and personhood-based "copyrights."[265]

"Full range" consideration: Every effort must be made to ensure all applicable policy justifications, foreign and domestic, for protecting and not protecting the IP at issue, are expressly considered by the decision-maker. This process requirement includes those revealed by the IPR classification schema (for example, economic, labor and personhood

262. The approach applies to all forms of decision-making: legislative, executive, administrative, or judicial.

263. *See supra* notes 173–77 (discussing the "apples to apples" comparison issue).

264. My apologies to Gertrude Stein.

265. This is similar to the French dualist view discussed *supra* notes 253–55.

copyright justifications) as well as those specific to the particular product and market context, such as policies favoring public health access and protection of cultural heritage, public safety or morals.

Transparent assessment: Finally, the decision must clearly reflect the actual policy basis for the exhaustion outcome.[266] The national or regional decision-maker remains free to accept or reject "foreign" justifications, IPR or otherwise, for protection. Transparency, however, requires it do so directly, expressly stating which justifications have been accepted, which have been rejected and why.[267]

These process changes do not seek outcome uniformity; they seek to ensure that policy discussions can identify the actual points of agreement, disagreement and, perhaps most importantly, disconnect (where the parties are not even aware of their respective differing justifications). For example, consider the decisionmaker addressing exhaustion of "copyright" in a painting. Although the decision-maker retains complete freedom concerning result, the decision-making process should follow the above requirements. The decisionmaker should ignore the copyright label and identify and address the full range of justifications for protection: economic, labor, natural and none (common heritage). The decision itself must clearly state the rationale for the outcome. For example, it might justify an exhaustion outcome by stating that, because national norms recognize only economic incentive justifications, other views, including moral, labor and common heritage views have been rejected and that, under prevailing local market conditions, distributional considerations dictate favoring domestic consumers over increased creator incentives (domestic and foreign). By following these procedures, in future discussions, whether other nations agree or disagree on the merits, there will be little confusion over issues of classification, justification, or reasons for favoring common market over IPR primacy.

B. *Reaching Substantive Resolution*

The search for appropriate international agreement on IPR exhaustion should be driven by both procedural and substantive considerations. The procedural requirements are, not surprisingly, the same as those that ensure clarity in national and regional decision-making. The international

266. Transparency is a doctrine of substantial international standing, specifically reflected in TRIPS. *See* TRIPS Agreement, *supra* note 1, art. 63; Reichman, *Bargaining Around*, *supra* note 21, at 13 (noting the carry-over from GATT).

267. As a result, when national IPRs are created, the body in charge will need to be clear concerning the justifications. In addition to assisting in resolving the exhaustion issue, this process will have the additional benefit of forcing greater focus on what justifies the taking from the commons.

debate must avoid labels and focus on justifications, include full-range consideration of justifications and maximize transparency concerning the supporting rationales for the particular outcomes being advanced.

Dealing with the substantive issues, however, also requires a change in paradigm. The prevailing economic approach to resolving the exhaustion debate poses the issue fundamentally as a comparison between global market returns from common market and IPR primacy. If the nod goes to the former, the answer lies in pressing forward with WTO free-trade objectives.[268] Recalcitrants must be cajoled into "thinking right" and joining the effort to remove barriers to free-flowing "internal trade" as defined by a worldwide common market. In contrast, IPR primacy places the emphasis on maximizing overall wealth creation through proper application of incentives to creation, avoiding consumer confusion and encouraging sharing of controlled information. The key assumption of this global economic approach is that individual decisionmakers will forgo self-interest-enhancing positions to pursue net maximization of wealth. This requires the parties to believe adequate assurances exist that individual distributional "inequities" will be satisfactorily resolved. This means that, at least, they will be better off with their share of the greater, cooperatively generated wealth than by grabbing what they can of what exists without collaboration.

Common enterprise provides a potential solution.[269] Perhaps the same inexorable forces of global commerce which have driven the WTO and TRIPS will eventually force the world community to recognize there really is only a single, common global marketplace.[270] If so, it must also only be a matter of time before we understand that these same forces of "globalization" bind us together in a common enterprise. Consequently, it is ultimately in everyone's best interests to put in place decision-making structures which address the distributional consequences of joint action, permitting the group to focus on making the shared pie as big as possible.[271]

The problem with this vision goes beyond the fact that its arrival is at best only vaguely presaged, with nothing concrete visible, even on the

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268. *See* Abbott, *supra* note 21, at 511 (identifying free trade as the overarching WTO goal, with supplemental attention to needs of developing countries); *Report*, *supra* note 9, at 635 (coming out in favor of exhaustion and free-trade).

269. *See supra* notes 79–105 (discussing the effect of common enterprise on national and regional exhaustion positions).

270. *See* FRIEDMAN, *supra* note 98, at 7–22 (1999) (noting, however, that the interconnectedness is more than economic).

271. Fundamentally, the point is that the WTO membership will eventually get around to implementing an "E.U.-like" model. *Cf.* Report, *supra* note 9, at 617–18 (noting that this has not yet occurred).

distant horizon. The real difficulty lies in its simplistic vision of the world as merely a global economic system. The participants' conflicting views rest on more than generation and distribution of goods and services. They reflect differences concerning the legitimacy of the economic decision-making paradigm itself. Competing views of how we should view the human enterprise, such as natural rights, personhood—individual integrity and communitarian beliefs define wealth (or more precisely "value") in fundamentally different ways. On resolving these disagreements, economic theory holds no greater normative claim than any other approach.[272] Important as it may be to understanding one set of consequences (specifically what and how much is produced), market driven economic wealth maximization is only one value consideration among many.[273]

Selecting among contradictory norms frequently turns, as a practical matter, on the decision-making mechanism itself.[274] Because the basic international decision-making process requires unanimity,[275] absent unassailable empirical evidence (or divine intervention), it is extremely unlikely that a particular position is going to prevail in the short-term. Even if economic (or other) power permits such ascendancy through the forced transplanting of the related legal regime (as in TRIPS), without the underlying normative consensus, it is likely to be at best a strikingly incomplete victory.[276]

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272. Economic methodology could be applied to determine how strongly these other views are "valued" based on willingness to pay and, in turn, how much of each should be produced to maximize wealth. However, this approach still requires agreement that economic willingness to pay is determinative. Otherwise, economic valuation is entirely unresponsive to the "ultimate value" argument that a consumer's (or groups'), perhaps misguided, willingness to pay is not the correct basis for making determinations of "ought." *See* POSNER, *supra* note 187, at 12–17 (discussing value/willingness to pay, utility and efficiency, including the difficulties of using them in social decisionmaking). Judge Posner notes that even if the parties agree, there are still a number of problems in application.

273. *See id.* at 13. There is real value in focusing on the market economic rationales for intellectual property laws and the consequences of abandoning them. That value, however, is limited to more fully understanding the costs of abandoning those objectives in order to obtain other benefits. *See* Chiappetta, *supra* note 151, at 93 n.154.

274. Agreeing how to decide is critical to any decision-making process. Without accord on another process (majority rule, consensus with veto, delegated decision, or fiat through power), agreement is a matter of individual consent. *Cf.* Aoki, *supra* note 209, at 1341–45 (discussing the difficulties of selecting an international baseline from among national norms set by, at least traditionally, sovereign states and the related threat to autonomous decision-making).

275. A large number of international decision-making processes concerning a wide variety of issues do exist. These have all been put in place, however, through the basic unanimity convention predicated on national sovereignty. The use of coercion, particularly through military force, appears to have some currency, but even its use is frequently based on some voluntary accord, such as a United Nations resolution directed at a member-state.

276. *See supra* notes 258–60 and accompanying text.

More importantly, faced as we are with conflicting "truths," all should be wary of power as the vehicle for agreement. Power can prove a fickle vassal and those currently in possession should perhaps plan for the worst.[277] Although enlightened self-interest is relevant, the concern goes substantially further. Much has been written concerning the cultural imperialism of the Northern, Western, and/or developed nations in the intellectual property context.[278] The important message, however, does not concern the clear illegitimacy of the values being forcibly transplanted by those in power or the undeniable merits of the alternative views held by those who are not. The real point is that in our present state of grace, a healthy dose of circumspection is appropriate concerning anyone's ability to pick the "right" or even the "best" approach from among the myriad choices. It is entirely possible, even likely, that the wielders of power may discover their choice which held such apparent promise turns out to be "wrong," even for them, in the long run. Unless we are certain of the real rules of the game, there is much to be said for hedging our bets.

The current paradigm that drives relentlessly toward convergence, finding the single correct "yes or no" answer, should be jettisoned.[279] Grabbing the other end of the stick reveals that the answer lies in affirmatively agreeing to disagree; recognizing that the TRIPS outcome is not a failed negotiation but a desirable international operating relationship. Given the diversity of economic and normative positions, the most appropriate position is to respect those differences,[280] leaving each national (or regional) market's approach to international exhaustion as a matter for domestic determination based expressly on maximized self-interest, however that may be locally defined.[281]

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277. This argument in favor of diversity over economic utility is consistent with, but does not rely on the social justice arguments made by John Rawls. Rawls defines a social contract based on equality and fairness. *See* John Rawls, A THEORY OF JUSTICE 12 (1971) (recently revised and republished as A THEORY OF JUSTICE, REVISED EDITION 1999). Economic theorists have attacked that position as being without operational content. *See* POSNER, *supra* note 187, at 506. The argument here only requires the individual actor (nation in this case) focus on its own best interests.

278. *See, e.g.*, Aoki, *supra* note 209, at 1296–97; Coombe, *supra* note 17, at 238; Hamilton, *supra* note 205, at 616; Long, *Cultures*, *supra* note 95, at 246–48.

279. *Cf.* Aoki, *supra* note 209, at 1344, 1352–53 ("hopes for a 'unified field theory' of intellectual property" are inappropriate).

280. *Cf.* Aoki, *supra* note 209, at 1342–44; Long, *Cultures*, *supra* note 95, at 249 (arguing a need for flexibility to protect and nurture indigenous cultures); Reichman, *Securing Compliance*, *supra* note 17, at 596 (arguing that WTO jurisprudence rests on deference to local law and strict construction of treaties).

281. This is the same position taken under both NAFTA and MERCOSUR, trading blocks formed without the strong sense of common enterprise necessary to convince parties to forgo looking out directly for their own interests. *See supra* notes 106–13.

Respect and autonomy do not, however, mandate disagreement. When interests and values align, agreement is fully justified and desirable.[282] The agreement to disagree only imposes two conditions. First, the normative consensus permitting agreement must be predicated on the participants' actual circumstances and beliefs, not the result of a "transplant" forced by those holding power. Second, the agreement's articulation must be expressly and specifically limited to the reach of the supporting normative consensus. Within these limitations, the new paradigm actually increases the possibility of true, albeit limited, accords on exhaustion. The process improvements will enhance the ability to identify overlapping national IPR justifications.[283] They will also clarify the specific nature of remaining disagreements making negotiations concerning voluntary compromise more effective.

Within this framework, a number of agreements are possible and even desirable concerning the TRIPS mandated IPRs. To the extent parties (few, many, or all) agree on utility objectives, it is entirely appropriate for them to maximize those goals. The result may be a mutual adoption of the free-trade proposal in the *Report*, adjusted to reflect the different exhaustion results appropriate to the differing patent, copyright, trademark, and trade secret applications of the market-utility model. In reaching this agreement, however, the parties will clearly understand that IPRs based on other justifications, such as moral rights, remain open to separate national self-interested treatment. Additionally, any party remains free to withhold agreement whether based on different views of the appropriate justifications, distributional considerations or otherwise.[284] Such dissention, however, should follow the procedural requirements, particularly transparency, so the differences can be specifically identified and addressed without an overlaid fog of totally irrelevant rhetoric. Finally, nothing prohibits a nation from compromising with others, in effect using IPR isolation or opening of its domestic market as a bilateral negotiating chit to obtain advantageous *quid pro quo* distributional or other concessions.

Moreover, the "agreement not to agree" framework provides a dynamic approach responsive to changing conditions. As local economic, social and political conditions change, additional agreements

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282. *Cf.* Geller, *Patchwork*, *supra* note 115, at 89 (noting the possibility of identifying common principles as a means for reaching actual consensus).

283. *See* Long, *supra* note 5, at 162 (noting the importance of mutual comprehension in reaching accords).

284. The analysis set out in the text would apply generally if TRIPS represents a fixed "deal." However, for the reasons noted, there is good reason not to insist too vigorously on adherence to its terms.

can develop (and disappear) reflecting the parties' evolving positions.[285] Should regional (or even global) shared common economic enterprises emerge over time, this approach readily accommodates any resulting agreement on the appropriate "internal" rule on exhaustion.

Implementation of these procedural and substantive changes can benefit from a number of related supporting understandings. Because the new approach requires substantial latitude in the expression of disagreement, the international community should avoid insisting too vehemently on specific interpretations of the purportedly harmonized TRIPS IPRs.[286] To do so forces disingenuity and subterfuge, risking precisely the confusion that must be avoided. Because the weak level of consensus makes it unlikely that much by way of efficient harmonization will be accomplished in any event, the loss from liberalizing implementation should not be great.[287] Additionally, it may prove useful for national and regional decision-makers to adopt a default pro-exhaustion presumption for cases that are indeterminate within their own policy framework.[288] Whenever local interests and beliefs do not specifically dictate a contrary outcome, the *Report*'s analysis provides a convincing argument that the competition disciplines of free trade are most likely to provide maximum benefit.[289] Therefore, it is best left to the affected individual IPR holder to make the contrary case.[290] Finally, national

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285. Perhaps the clearest intellectual property example is the change in the U.S. position on intellectual property law as it evolved from a net consumer to a net creator. *See supra* note 96. *See also* Reichman, *Securing Compliance*, *supra* note 17, at 600–01; Jerome H. Reichman, *Compliance with the TRIPS Agreement: Introduction to a Scholarly Debate*, 29 VAND. J. TRANSNAT'L L. 363, 370 (1996) (noting Ladas' consensual evolutionary theory of justifications for IPRs).

286. *See* Reichman, *Bargaining Around*, *supra* note 21, at 15–16 (arguing for a more cooperative approach to implementation); Jerome H. Reichman, *Intellectual Property in International Trade: Opportunities and Risks of a GATT Connection*, 22 VAND. J. TRANSNAT'L L. 747 (1989) (arguing pre-TRIPS for flexibility toward developing countries); Reichman, *Securing Compliance*, *supra* note 17 (arguing for permitting flexibility in interpretation of TRIPS obligations).

287. *See supra* text accompanying notes 194–215 (discussing the lack of consensus), 258–60 (discussing the likelihood of imperfect implementation as a result).

288. This is similar to the rule of reason approach suggested by Donnelly and is offered here for much the same reasons he suggests. *See* Donnelly, *supra* note 63, at 499–502, 510. Donnelly, however, proposes the approach as a general rule, not merely the default rule when a nation is indifferent. The argument that general application takes too much power away from the individual decision-makers to protect their own interests is made above in the text.

289. *See Report*, *supra* note 9, at 607.

290. A non-exhaustion default not only offers less likelihood of benefit but also places the burden of overcoming the presumption with a group unlikely to mount the necessary effort. Specifically, the mechanics of bringing pressure to bear concerning non-competitive consumer prices on specific goods are daunting at best. Only the most egregious cases are likely to arouse sufficient interest. However, those cases are precisely those most likely not to require the default rule, there being sufficient attention for a national position to have already

authorities should scrutinize attempts at private adjustment of public exhaustion rules through contract not only under domestic competition law principles, but also for consistency with the objectives driving the local position on exhaustion.[291]

An agreement to disagree is not without cost. There will be public and private administrative costs related to establishing and determining national rules and private costs incurred to develop strategies for dealing with them.[292] There will be dislocations in availability of goods and services as trading interests make their decisions against the backdrop of diverse national and regional rules.[293] There will be decreased economic efficiency in global trade and, consequently, reduced overall production of goods and services.[294]

We should not proceed predicated on the hope that rapid convergence will mitigate these effects.[295] The divisions are deep, and any reconciliation will take time. More importantly, because the disagreements do not merely require the "wrong thinkers" to eventually come around to the truth, convergence may ultimately be impossible.[296] Consequently, the costs of diversity cannot be ignored as merely insignificant, short-term effects. Actual justifications must support taking this course on international exhaustion.

Two such justifications exist. First, any uniform rule will have adverse distributional consequences on some group, meaning there must be

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developed. In contrast, parallel IPR holders in smaller niche markets who stand to benefit directly will be more likely to make their specific case against the default.

291. Because parties may attempt to avoid such a policy review through non-sale articulations (for example, licensing in the software or movie context), decision-makers must look behind the form of a transaction to its substance. *See, e.g.*, Julie E. Cohen, Lochner *in Cyberspace: The New Economic Orthodoxy of "Rights Management,"* 97 MICH. L. REV. 462, 482 n.70 (1998) (noting the use of licensing terminology to evade the first sale doctrine and the courts' application of a functional test). For example, perhaps a perpetual license should be treated as a sale. In contrast, a rental of software or videocassette for one-time, limited use or viewing lacks the "sale" attribute of continuous possession by the acquirer and should be treated differently.

292. *See* Chisum, *supra* note 115, at 617–18 (pointing out the administrative and possible free-riding costs).

293. Regardless of which position a nation takes on the exhaustion issue, the arguments made for the contrary position will apply to some extent, generating costs. In some cases, the inability to erect barriers may cause markets to be under-supplied for fear of free riding; in others, IPR barriers may result in inadequate competition to provide efficient pricing results.

294. Allowing local interests to prevail over global interests means global wealth maximizing strategies will be forgone when national decision-makers view the distributional consequences as unacceptable. *Cf.* FRIEDMAN, *supra* note 98, at 83–92 (noting those costs may be disproportionately borne by those countries electing out of the global free-trade economy).

295. *See supra* notes 194–257 and accompanying text.

296. *See* RAWLS, *supra* note 277, at 45–63(arguing that differences in ultimate values are inevitable).

"winners and losers." This should affect every party's enthusiasm. As discussed above, when dealing with changing economic, social and political conditions, there is no assurance of constant "winner" status over the long-term. Additionally, because complex interactions make identifying "us" and "them" a difficult exercise, even short-term advantage is uncertain.[297] IPR issues do not pit clearly defined consistent interest groups against one another. Disagreements include the United States' (and others) opposition to China (and others) over common heritage, the Continental European (and others) opposition to the United States (and others) on moral rights and certain factions in the United States in opposition to other factions in the United States over the necessity or value of copyright incentives at all. Therefore, as the comprehensive uniform rule is developed, "self interest" alignments will change with some of "us" becoming "them" and some of "them" becoming "us." Consequently, every participant will ultimately find itself on both the winning and losing side of the diversity question.[298] Without common enterprise accord to handle potentially adverse distributional consequences, the best position is to preserve autonomy of action under an agreement to disagree.[299]

Second, it is vital to recognize that uniformity, of any kind, comes with its own costs. Specifically, the WTO objective of creating a maximally efficient, common trading market (whether through exhaustion or non-exhaustion),[300] although perhaps the best system for maximizing the production of goods and services,[301] may be in need of some thoughtful tempering. As the E.U. has discovered, establishing a "common market" inevitably brings with it some degree of homogenization. The necessary enabling agreements, such as when something can be called "beer"[302] or

297. *See id.*

298. For example, it is not improbable that, although the United States might "win" by obtaining agreement on a rule of non-exhaustion of economic rights, it may come at the expense of having to recognize "inefficient" non-economic moral rights as part of the package. The United States might also find itself on the "consumer" end of a variety of important protected forms of IP, such as indigenous peoples' folkloric arts and sciences.

299. It might be argued that the decision to forgo a uniform rule itself comes at the singular expense of developing economies without adequate baseline availability of goods and services. That, however, is a distributional complaint, which requires accord on a key underlying point of contention. Until accord on this issue is reached, the effects are best mitigated by ensuring each country retains control over its national economy, permitting it to maximize its self-interests (either pursuing price competition by permitting parallel imports or gaining advantage for domestic IP industry, encouraging in-bound technology transfer and manufacturing or gaining bilateral concessions through non-exhaustion segmentation).

300. *Cf. Report*, *supra* note 9, at 611–12 (noting that the goal of the WTO is free trade).

301. *See* FRIEDMAN, *supra* note 98, at 85–86.

302. Case 178/84, Commission v. Germany, 1987 E.C.R. 1227, [1988] 1 C.M.L.R. 780 (1987) (holding that Germany cannot limit the use of the word "Bier" to beverages manufactured in accordance with German standards).

a fruit liqueur,[303] requires eliminating differences. Similarly, reaching a single international position on IPR exhaustion requires elimination of all conflicting national views and the differing values and the interests that drive them.

The *Report* suggests that reaching the proper result on exhaustion depends on whether "local" or "global" interests are given preference.[304] This articulation, true to the *Report*'s global economic analytic framework, implies a fundamental trade-off exists between local and global community interests. However, once market economic measures are abandoned as the exclusive measure of success, it becomes apparent that continued local diversity may actually make us globally "better off." Giving up individuality (personal and national) is serious business,[305] making it important to consider whether the costs in lost variety outweigh the benefits of maximally efficient operation of the marketplace.[306] If there is more to the human enterprise than getting our way (right or wrong) or letting power dictate that the short-term interests of the few will prevail over the long-term interests of us all, the economic costs of preserving diversity may be a small price to pay to avoid the arbitrary homogenization of values that choosing (or forcing) a single approach inevitably entails.[307] From this perspective, inefficiency "costs" can be better viewed for what they really are: investments in diversity for everyone's benefit. Without certainty as to the "right"

303. Case 120/78, Rewe-Zentral AG v. Bundesmonopolverwaltug für Branntwein, 1979 E.C.R. 649, [1979] 3 C.M.L.R. 494 (1979) (holding that Germany cannot prohibit import of liqueur legally manufactured in France because it fails to meet minimum alcohol content under German law).

304. *Report*, *supra* note 9, at 624.

305. This was a major reason Norway declined to join the E.U. *See* Friedman, *supra* note 98, at 30.

306. *See* Bradley, *supra* note 57, at 584 n.390 (noting, without elaborating, that there may be normative reasons for maintaining cultural differences); Coombe, *supra* note 17, at 240 (arguing that enforcement of IPRs risks reinforces "tendencies toward American cultural hegemony); Long, *Cultures*, *supra* note 95, at 240–47. *Cf.* Kenneth D. Crews, *Harmonization and the Goals of Copyright: Property Rights or Cultural Progress*, 6 IND. J. GLOBAL LEGAL STUD. 117 (1998) (noting the effects of harmonization even on U.S. copyright policy).

307. Again, the position is consistent with Rawls, particularly concerning the undesirability of oppression. *See* RAWLS, *supra* note 277 at 195–258. However, the argument is not that this respect for diversity is just or fair, but that it is supported by self-interest in an environment of uncertainty. Additionally, leaving philosophy aside, experience provides strong support for the position that life is a lot more interesting with variety. Perhaps, therefore, we should be willing to trade our ability to get the second SUV made scarce by economic inefficiency for conversations with people who strongly hold communitarian or natural rights views. *Cf.* Coombe, *supra* note 17, at 241. Diversity does get problematic, however, when a particular worldview demands eradication of disbeliveers. That argues, however, for limitations, not the very homogeneity such views would seek.

answer, the most important "good and service" any system can deliver is preserving our ability to learn from our differences.

The IPR experience offers valuable insights and guidance concerning the current vigorous WTO agenda debates. Whether the issue is international exhaustion, the environment, labor standards or another principle key to a particular constituency's definition of the one true path,[308] we would do well to recall that uniformity comes with costs. Therefore, to really be "in this together," we must not only resolve the distributional consequences,[309] but also recognize that we are not all the same and that may be a good thing.

308. *See supra* note 27 (discussing the efforts to expand the WTO agenda and related concerns).

309. *See, e.g.*, Friedman, *supra* note 98, at 225–28 (noting that the "owners" of the rainforests are unlikely to willingly forgo exploitation of their one source of wealth simply so the rest of us can benefit from a better environment.); *supra* notes 14, 27 (citing articles noting the distributional effects of the labor and environmental requirements).