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Gray-Market Goods Under the Agreement on Trade-Related Aspects of Intellectual Property Rights

Michael A. Ugolini*

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I. INTRODUCTION

The international licensing of intellectual property presents challenges to the intellectual property owner not encountered in domestic licensing. Despite the myriad of intellectual property schemes found throughout the world which afford the right owner varying degrees of protection from and remedies for infringement, there remains an area of paramount concern involving rampant counterfeiting and piracy. In 1988, the United States International Trade Commission (USITC) placed the total loss to the U.S. economy due to inadequate intellectual property protection

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abroad at US\$24 billion annually.¹ While one might assume that the loss to the right owner is comparatively minor, in the greater scheme of things, technical creations protected by intellectual property law, such as pharmaceuticals and medical devices, are often the result of great expenditures of time and money on research and development. Product innovation is stunted to the extent that these costs can not be recovered by product sales.²

An area of somewhat less concern, but still significant, is the enforcement of territorial restrictions on licensees. Gray-market goods or parallel imports,³ as they are variously known, refer to goods manufactured under a license that grants the licensee the sole right to sell the goods in a particular country. These goods then find their way into other countries where the licensor is already selling the same goods, where there are other licensees, or where the goods have not yet been marketed. While the goods are not directly infringing, that is, they are not counterfeit or pirated, such gray-market goods pose numerous difficulties from an international marketing standpoint; it may become difficult, if not impossible, to maintain different price structures, product models, and quality standards among the countries where the goods are being marketed. This is particularly true in countries that are members of a customs union⁴ or a free trade area,⁵ where regional trade agreements may guarantee the free movement of goods among member countries, or whatever rights to prevent gray-marketing are afforded the right owner by municipal law.

One aspect of these two problems lies in the competing political and economic interests between the developed and the developing world. Because of high wage scales, regulatory burdens, and other factors, developed countries face an increasing inability to compete globally in manufacturing. However, to the barons of technological innovation, developed countries generally provide greater protection for intellectual property and advocate greater protection in trade negotiations with developing countries. On the other hand, developing and least-developed countries, being the 'meccas' of low-cost manufacturing, are technologically disenfranchised

1. See Executive Summary to 1988 USITC Report on Foreign Protection of Intellectual Property Rights and the Effect on U.S. Industry and Trade, C492 ALI-ABA 837, 842 (1988) (reporting the aggregate worldwide loss to U.S. businesses caused by inadequate foreign intellectual property protection).

2. See L. Peter Farkas, *Trade-Related Aspects of Intellectual Property*, in THE WORLD TRADE ORGANIZATION: THE MULTILATERAL TRADE FRAMEWORK FOR THE 21ST CENTURY AND U.S. IMPLEMENTING LEGISLATION 5, 5 (Terence P. Stewart ed., A.B.A. 1996) (discussing the necessity of intellectual property protection in a high-cost risk environment).

3. See *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 952 F.2d 44, 46 fn.1 (3d Cir. 1991) (defining gray-market goods).

4. A customs union is a group of countries which have entered into free trade agreements which reduce or eliminate tariffs between themselves (and which establish a common external tariff). General Agreement on Tariffs and Trade, Mar. 24, 1948, 62 U.N.T.S. 187, art. XXIV, § 8(a) [hereinafter GATT (1948)].

5. See *id.* § 8(b) (stating that a free trade area is a group of countries which have entered into free trade agreements that reduce or eliminate tariffs between themselves, but which leave each member free to establish its own tariffs as to goods coming from other countries).

and generally provide and advocate far less protection. The multilateral solution for more than a hundred years has been a virtual stalemate.

The Paris Convention for the Protection of Industrial Property,⁶ which dates from the late 19th century, was a beginning, but it is now inadequate. It fails to define the basic scope of protection for patents and trademarks and fails to establish any formal mechanism for the resolution of intellectual property disputes between member countries. The Berne Convention for the Protection of Literary and Artistic Works,⁷ also from the 19th century, defines the works protected,⁸ but, likewise lacks any enforcement mechanism.

Another aspect lies in a basic premise of international law which is firmly embedded in the world's legal systems. The premise is that municipal laws have no extraterritorial effect, and thus, intellectual property rights are valid only in the state which grants them.⁹ However, the world's political and geographical boundaries have become blurred by advances in transportation and communications. This increasing economic integration in the form of customs unions and free trade areas render territorial limitations on intellectual property rights anachronistic. The development of intellectual property law has failed to keep pace with the development of world trade. The latest multilateral solution is the Agreement on Trade-Related Aspects of Intellectual Property Rights.¹⁰ The purpose of this article is to explain the major provisions of the TRIPS Agreement beginning

6. See Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 828 U.N.T.S. 305, revised by 21 U.S.T. 1583 (July 14, 1967) [hereinafter Paris Convention].

7. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 828 U.N.T.S. 221, revised by multilateral copyright. 25 U.S.T. 1341, July 24, 1971 [hereinafter Berne Convention].

8. The United States did not become a member of the Berne Convention until 1989, choosing to adhere to the Universal Copyright Convention, Sept. 6, 1952, 6 U.S.T. 2731, 216 U.N.T.S. 134, revised by 25 U.S.T. 1341, 943 U.N.T.S. 178, July 24, 1971. It too lacked any enforcement mechanism. *Id.*

9. American variations on this theme may be found in *Subafilms, Ltd. v. MGM-Pathe Communications*, 24 F.3d 1088 (9th Cir. 1994) (copyright), *cert. denied* 513 U.S. 1001 (1994); see also *Deepsouth Packing Co., v. Laitram Corp.*, 406 U.S. 518 (1972) (patent), *reh'g denied* 409 U.S. 902 (1972); *Wells Fargo & Co. v. Well Fargo Express Co.*, 358 F. Supp. 1063 (9th Cir. 1973) (trademark), *vacated* 556 F.2d 406 (9th Cir. 1977).

10. Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Apr. 15, 1994, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND, Vol. 1 (1994), 33 I.L.M. 1125 (1994) [hereinafter TRIPS Agreement] and [WTO Agreement]. The WTO Agreement is the culmination of multilateral trade negotiations which took place between 1986 and 1994, referred to as the "Uruguay Round" of negotiations under the GATT (1947). 61 Stat 5, 6; TIAS 1700, 4 Bevans 639, 55-61 UNTS. Besides the United States, the contracting parties to the GATT, were the following: Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, the Republic of China, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, the Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Syria, South Africa, and the United Kingdom. *Id.* The purpose of the WTO Agreement is to continue the development of the multilateral framework for international trade begun under the GATT, which, during the first five negotiating rounds, had focused on tariff barriers. The last three rounds had begun to focus on non-tariff barriers such as dumping (the Tokyo Round 1973-1979), customs valuation, subsidies, technical barriers, import licensing, and government procurement (the Kennedy Round 1964-1967), and services, intellectual property, dispute settlement, agriculture, textiles, sanitary and phytosanitary measures, technical standards, and rules of origin. John H. Jackson, *The Uruguay Round and the Launch of the WTO: Significance & Challenges*, in *THE WORLD TRADE ORGANIZATION: THE MULTILATERAL TRADE FRAMEWORK FOR THE 21ST CENTURY AND IMPLEMENTING LEGISLATION* (Terence P. Stewart ed., A.B.A. 1996).

with a discussion of its general principles, its historical development, and the obligations it imposes on World Trade Organization (WTO) member countries regarding forcing intellectual property rights. This article then discusses the TRIPS standards governing the availability, scope and use of copyright, trademark, and patent rights. Particular focus is given to the gray-market problem and the related doctrine of exhaustion of intellectual property rights. The failure of the TRIPS Agreement to protect against parallel imports provides a valuable context for understanding the WTO Agreement and world trade generally.

II. THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS

A. General Provisions

In the evolution of international intellectual property, the first hurdle to protection was when a country fails, for political or other reasons, to treat nationals of another country as it does its own. Thus, bilateral treaties of the 19th century concerning intellectual property were limited to each side promising not to violate it.¹¹ This is known as the rule of “national treatment,”¹² and it became a basic principle of the Paris¹³ and Berne Conventions,¹⁴ as well as of the 1948 General Agreement on Tariffs and Trade.¹⁵ The principle of national treatment has been carried over into the TRIPS Agreement, which requires that, with regard to the protection of intellectual property, each WTO member shall accord to the nationals of other WTO members “treatment no less favourable than that it accords to its own nationals.”¹⁶

11. See, e.g., Agreement for the Protection of the Marks of Manufacture and Trade, Sept. 24, 1878, U.S.-Brazil, 21 Stat. 659, T. S. No. 36, 5 Bevans 807.

12. The rule of national treatment was also a standard provision in the Treaty of Friendship, Commerce and Navigation, the subject matter of which was to provide a right of nationals of each treaty party to enter the territory of the other for purposes of establishing and maintaining business. Treaty of Peace, Friendship, Commerce and Navigation, Sept. 12, 1878, U.S.-Brazil, 8 Stat. 390, T.S. No. 34, 5 Bevans 792. The FCN Treaty has been supplanted by the Bilateral Investment Treaty, which provides that each party shall provide the better of national treatment or most-favored-nation treatment to the investments of nationals of the other, and defines investments as including intellectual and industrial property rights, including rights with respect to copyrights, patents, trademarks, trade names, industrial designs, trade secrets and know-how, and goodwill. Treaty Concerning the Reciprocal Encouragement and Protection of Investment, with protocol, Nov. 11, 1991, U.S.-Argentina, 31 I.L.M. 128.

13. See Paris Convention, *supra* note 6, art. 2.

14. See Berne Convention, *supra* note 7, art. 5(1).

15. See GATT (1948), *supra* note 4, art. II.

16. See TRIPS Agreement, *supra* note 10, art. 3(1). While the GATT (1948) required that each member provide national treatment to *products* of the territory of any other member under Article III(4), the TRIPS Agreement requires that each WTO member country, subject to the exceptions contained in the aforementioned treaties, provide national treatment of *nationals* of any other member. *Id.* The Paris Convention permits a member country to treat nationals of other member countries different than its own nationals, in regard to judicial and

Another hurdle to protection was presented when a country failed to treat nationals of one country as it treated nationals of another, either less favorably or more so. The Berne Convention, for example, permits member countries to treat the works of authors who are nationals of nonmember countries less favorably than they treat their own nationals when those nonmember countries fail to adequately protect the works of authors who are nationals of a member country.¹⁷ Known as the most-favored-nation rule, it also became a basic principle of GATT(1948)¹⁸ and was incorporated into the TRIPS Agreement.¹⁹ It provides that any advantage granted by a WTO member to the nationals of any other country “shall be accorded immediately and unconditionally to the nationals of all other members.”²⁰ Under the most-favored-nation rule, WTO member countries may not discriminate against nationals of one country and in favor of nationals of other countries, whether those other countries are WTO members or not.

In addition to the basic principles of national treatment and most-favored-nation treatment to nationals of other WTO members, the TRIPS Agreement also establishes minimum standards for the protection of intellectual property. It does so by requiring WTO members to observe the substantive provisions of the major multilateral intellectual property treaties.²¹ In addition to the Paris Convention and the Berne Conventions, WTO members must also observe the substantive provisions of the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations²² and the Treaty on Intellectual Property in Respect of Integrated Circuits.²³

B. The Enforcement of Intellectual Property Rights

WTO members must ensure that the enforcement procedures specified in the TRIPS Agreement are available under their laws so as to permit effective action against the infringement of intellectual property rights covered by the TRIPS Agreement. These include remedies both to prevent infringement and to deter future infringements.²⁴ Procedures must be “fair and equitable” and can not be

administrative procedure, jurisdiction, and to the designation of an address for service or the appointment of an agent. Paris Convention, *supra* note 6, art. 2(3). The Berne Convention, Rome Convention, or Washington Convention did not directly qualify the rule of national treatment.

17. See Berne Convention, *supra* note 7, art. 6(1).

18. See GATT (1948), *supra* note 4, art. I.

19. While the GATT (1948) required most-favored-nation treatment of *products* originating in any other member country under Article I(1), the TRIPS Agreement requires most-favored-nation treatment of *nationals* of any member country. See TRIPS Agreement, *supra* note 10, art. 3(1).

20. *Id.* art. 4.

21. See *id.* art. 1, 2.

22. International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, Oct. 26, 1961, 496 U.N.T.S. 43 [hereinafter Rome Convention].

23. Treaty on Intellectual Property in Respect of Integrated Circuits, May 26, 1989, 28 I.L.M. 1483.

24. See TRIPS Agreement, *supra* note 10, art. 41(1).

unnecessarily complicated or costly.²⁵ They must be applied in a manner so as to avoid the creation of trade barriers.²⁶ Members must make civil judicial procedures available to right holders, in which the parties must be allowed to substantiate their claims and to present all relevant evidence.²⁷ Because most of the world's legal systems do not permit U.S. style discovery, the TRIPS Agreement contains a provision for limited discovery,²⁸ and for a permissible adverse inference to be drawn from a party's failure to comply with a discovery order.²⁹

The TRIPS Agreement requires that judicial authorities have the power to award damages for infringement,³⁰ including lost profits and attorneys' fees.³¹ Judicial authorities must also have the ability to enter preliminary orders in an infringement action to prevent infringement or preserve evidence of an infringement.³² They must also have the power to enjoin the entry of goods into the channels of commerce of each member country after importation,³³ as well as order the destruction of the goods and the instrumentalities of their manufacture.³⁴

C. Availability, Scope, and Use of Intellectual Property Rights

1. Copyright

With respect to copyright and neighboring rights³⁵ in performances, phonograms, and broadcasts, the TRIPS Agreement requires that WTO members comply with the Rome Convention and Paris Act's Articles 1 through 21 of the Berne Convention.³⁶ The Berne Convention protects "literary and artistic works" by authors who are nationals or habitual residents of a member country or who first publish their works in a member country.³⁷ The "patrimonial" or economic rights

25. *See id.* art. 41(1).

26. *See id.* art. 41(1).

27. *See id.* art. 42.

28. *See id.* art. 43(1).

29. *See id.* art. 43(2).

30. *See id.* art. 45(1).

31. *See id.* art. 45(2).

32. *See id.* art. 50(1).

33. *See id.* art. 44(1).

34. *See id.* art. 46.

35. Neighboring rights are rights similar to those recognized by copyright law, but technological developments of new media of expression, are, in more formal European intellectual property law, not regarded as part of the author's copyright. COPYRIGHT, Paul Goldstein § 16.5 (Little, Brown 1989).

36. Aside from the TRIPS Agreement, Brazil had already ratified the Paris Act by Decree No. 76,905 of 24 December 1975. Brazil Decree No. 76,905 (Dec. 24, 1975).

37. Berne Convention, Art. 3(1), 3(2). "Literary and artistic works" are defined as including: [E]very production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression, such as books, pamphlets, and other writings; lectures, addresses, sermons and other works of the same nature; dramatic or dramatico-musical works; choreographic works and entertainments in dumb show; musical compositions with or without words; cinematographic works

of authors protected by the Berne Convention give the author the exclusive right to authorize: the reproduction of a protected work in any form,³⁸ include any adaptation of the original,³⁹ publicly communicate the work in any form, the right of public performance,⁴⁰ the right of broadcasting,⁴¹ and communicate the work by means of sound or visual recording.⁴² The so-called "moral rights" of the author protected by the Berne Convention include the right to be recognized as the author of the work and the right to object to modifications or to other acts which harm the author's reputation or honor.⁴³ The Berne Convention sets forth the minimum term of copyright protection as the life of the author plus fifty years after his death.⁴⁴ No formalities, such as requiring a copyright notice or registration, may be a prerequisite to protection.⁴⁵

The Rome Convention protects performers from the unauthorized recording, broadcasting, or reproduction of their recorded performances:⁴⁶ producers of phonograms from the direct or indirect reproduction of their works,⁴⁷ broadcasters from unauthorized recording or rebroadcasting of their broadcasts, or reproduction

which are assimilated works expressed by a process analogous to cinematography; works of drawing, painting, architecture, sculpture, engraving and lithography; photographic works to which are assimilated works expressed by a process analogous to photography; works of applied art; illustrations, maps, plans, sketches and three-dimensional works relative to geography, topography, architecture or science. *Id.* art. 2(1).

Unlike U.S. law, which requires under 17 U.S.C.A. § 102(a) that an artistic or literary work be fixed in a tangible medium of expression in order to be protected by copyright law, the Berne Convention leaves member countries to choose whether their national legislation shall impose such a requirement. Berne Convention, *supra* note 7, art. 2(2).

38. See Berne Convention, *supra* note 7, art. 9(1). Cf. 17 U.S.C. §106(1).

39. See Berne Convention, *supra* note 7, art. 12. Cf. 17 U.S.C. §106(2).

40. See Berne Convention, *supra* note 7, art. 11 & 11ter. Cf. 17 U.S.C. §106(4).

41. See Berne Convention, *supra* note 7, art. 11bis. Cf. 17 U.S.C. § 106(5).

42. See *id.*

43. See Berne Convention, *supra* note 7, art. 6 bis. Rights corresponding to those recognized by Article 6 bis emanate from French law, and are referred to, respectively, as *droit à la paternité* [right of paternity—the right to be recognized as the author] and *droit de respect* [right of respect—the right to object to distortion, mutilation or modification]. Copyright, Melville B. & David Nimmer, Vol. 3, section 8D.01 (Matthew Bender 1996). While the TRIPS Agreement itself specifically does not require WTO member states to grant moral rights to authors under Article 9, Paragraph 1, the Paris revision of the Berne Convention (July 24, 1971), does. *Id.* It entered into force with respect to the United States on March 1, 1989. Congress has expressed its policy towards moral rights in the Berne Convention Implementation Act of 1988, Pub. L. No. 100-568, 102 Stat. 2853 (1988); Judicial Improvement Acts of 1990, Pub. L. No. 101-650, 104 Stat. 5089; Visual Artists Rights Act of 1990, Pub. L. No. 101-650, 104 Stat. 5128 (1990); Architectural Works Copyright Protection Act, Pub. L. No. 101-650, 104 Stat. 5133 (1990).

44. See Berne Convention, *supra* note 7, art. 7(1). Moral rights are protected for the same period, and are not transferred by the transfer of economic rights. *Id.* art. 6bis(2).

45. See *id.* art. 5(2). Cf. Universal Copyright Convention, *supra* note 8 (permitting a member country to require formalities for protection of works first published outside of its territory in another member country). The "formality" is simply that the work bear the symbol "©" along with the copyright owner's name, and the date of first publication. See also Universal Copyright Convention, *supra* note 8, art. III(1).

46. See Rome Convention, *supra* note 22, art. 7.

47. See *id.* art. 10.

of any recording of their broadcasts.⁴⁸ Countries which are members of the Rome Convention must provide a minimum term of protection of twenty years from the end of the year in which the performance took place, when the phonogram was made, or the broadcast took place.⁴⁹

The TRIPS Agreement extends this minimum term of protection for performers and producers to fifty years,⁵⁰ but leaves intact the minimum twenty year term for the protection of broadcasters.

The TRIPS Agreement also provides that computer programs, whether in source code or object code, shall be protected as literary works under the Berne Convention.⁵¹ Data compilations, described as “compilations of data or other material, whether in machine readable or other form, which by reason of the selection or arrangement of their contents, constitute intellectual creations,”⁵² are likewise protected. The TRIPS Agreement further provides that, at least as to computer programs, cinematographic works, and phonograms, authors and producers must have the right to control the commercial rental of their works.⁵³

2. Trademarks

The most significant contribution to the international protection of industrial property made by the Paris Convention was to establish an exclusive priority period from the date of an application for patent or trademark registration in the country of origin for its owner to apply for registration of this same patent or trademark in other countries which are signatories to the convention.⁵⁴ However, many industrial property issues were left unresolved. While members of the Paris Convention were obligated to provide “national treatment” to the nationals of other members, this meant only that nationals of other members were entitled to the “advantages that [each member’s] respective laws grant, or may hereafter grant, to [its] nationals.”⁵⁵ It did not establish any international standards for the basic scope of rights to be protected by patent law, and only offered protection to trademark owners of internationally well-known marks,⁵⁶ and prohibited protection for marks which were coats of arms, flags, and other state emblems of member countries.⁵⁷ While

48. See *id.* art. 13.

49. See *id.* art. 14.

50. See TRIPS Agreement, *supra* note 10, art. 14(5).

51. *Id.* art. 10(1).

52. *Id.* art. 10(2).

53. *Id.* art. 11, 14(4).

54. Paris Convention, *supra* note 6, art. 4(c)(1) (establishing the period of priority as twelve months for patents and six months for trademarks).

55. *Id.* art. 2(1).

56. *Id.* art. 6bis(a) (providing that countries of the Union could cancel or refuse registration of well-known marks as already being the mark of a national of another member country. This is to prevent the registration of well-known marks by persons who then seek to sell the rights to the mark to the true owner).

57. See *id.* art. 6ter.

the Paris Convention defined industrial property to include “patents” and “trademarks,”⁵⁸ it neither defined the terms nor established any minimum term of protection. The most that can be said is that the Paris Convention placed some limitations on members’ rights to grant compulsory licenses for patents⁵⁹ and for the cancellation of patents⁶⁰ and trademarks.⁶¹

The TRIPS Agreement fills the gaps in the Paris Convention by providing that “[a]ny sign, or any combination of signs, capable of distinguishing the goods or services of one undertaking from those of other undertakings, shall be capable of constituting a trademark.”⁶² Registration of a trademark gives the owner “the exclusive right to prevent all third parties not having the owner’s consent from using in the course of trade identical or similar signs for goods or services which are identical or similar to those in respect of which the trademark is registered where such use would result in a likelihood of confusion”⁶³ The TRIPS Agreement establishes a minimum term of protection of seven years, renewable indefinitely.⁶⁴ If use is required to maintain a registration, cancellation on the ground of non-use must be preceded by an uninterrupted period of three years,⁶⁵ unless the trademark owner can show “valid reasons based on the existence of obstacles to such use”⁶⁶

3. Patents

The TRIPS Agreement requires that WTO members make patent protection “available for any inventions, whether products or processes, in all fields of technology, provided that they are new, involve an inventive step, and are capable of industrial application [P]atents shall be available and patent rights enjoyable

58. *Id.* art. 1(2).

59. The Paris Convention provides that members could grant compulsory licenses to prevent abuse of patent rights, as for example, by a failure to work the patent. *See id.* art. 5(A)(2). It established a minimum term of the longer of four years from the date of the patent application, or three years from the date of the patent’s grant, during which no one could apply for a compulsory license on the grounds of a failure to work, and even after such periods, provided that an application for a compulsory license would be refused if the patentee justified his inaction “by legitimate reasons.” *Id.* art. 5(A)(4). Compulsory licenses had to be non-exclusive and non-transferable, unless the licensee transferred his business. *See id.*

60. Forfeiture of a patent can only take place if a compulsory license will not be sufficient to prevent the abuse of patent rights. *Id.* art. 5(A)(4).

61. *Id.* art. 5(C)(1) (providing that if use of a registered mark is required to maintain registration, the registration can be canceled only after a “reasonable period” of non-use, and then, only if the trademark owner does not justify his inaction).

62. *Id.* art. 15(1).

63. *Id.* art. 16(1).

64. TRIPS Agreement, *supra* note 10, art. 18.

65. *See id.* art. 19(1).

66. *Id.*

without discrimination as to the place of invention, the field of technology and whether the products are imported or locally produced.”⁶⁷

WTO member countries may exclude from patentability only those inventions which pose a threat to public health or morality,⁶⁸ those which involve “diagnostic, therapeutic and surgical methods for the treatment of humans or animals,” or which involve “plants and animals other than micro-organisms, and essentially biological processes for the production of plants or animals other than non-biological and microbiological processes.”⁶⁹

The TRIPS Agreement also, for the first time, establishes a benchmark for rights protected by patent registration. A product patent must confer on its owner the exclusive right of making, using, offering for sale, selling, or importing the product.⁷⁰ A process patent must confer the exclusive right of using, offering for sale, or selling the process, and in addition, importing the product obtained directly by the process.⁷¹ While WTO members may provide limited exceptions to the exclusive rights conferred by a patent, these exceptions can not “unreasonably conflict with a normal exploitation of the patent,” and can not “unreasonably prejudice the legitimate interests of the patent owner, taking [into] account . . . the legitimate interests of third parties.”⁷² The TRIPS Agreement establishes a minimum protection of twenty years from the date the application for registration is filed.⁷³

While compulsory licensing is permitted, the licensee must first comport to the following: (1) obtain authorization from the right holder upon reasonable commercial terms; the scope and duration of the use licensed must be limited to the purpose for which it was authorized; the use must be non-exclusive; the use must be authorized predominantly to supply the domestic market; the right holder must be paid adequate remuneration; there must be judicial or other review of the authorization and the remuneration.⁷⁴

67. *Id.* art. 27(1). In American law, “inventive step” is synonymous with the term “non-obvious,” and “capable of industrial application” is synonymous with the term “useful.” *See also id.* art. 27 n.5 (permitting members to so treat these terms).

68. *See* TRIPS Agreement, *supra* note 10, art. 27(2) (stating that inventions excluded from patentability on public health or morality grounds may not be commercially exploited, whereas those excluded under Article 27(3) may be commercially exploited because they fall within a certain subject area).

69. *Id.* art. 27(3). Members must, however, provide for the protection of plant varieties either by patents or by an effective *sui generis* system or by any combination thereof. *Id.*

70. *See id.* art. 28(1)(a).

71. *See id.* art. 28(1)(b).

72. *Id.* art. 30.

73. *Id.* art. 33.

74. *See id.* art. 31 (stating that the condition that the licensee make efforts to obtain authorization from the right holder may be dispensed with in cases of national emergency or other circumstances of extreme urgency). That condition, and the condition that use must be authorized predominantly to supply the domestic market, may be dispensed with where the license is being granted to remedy a practice that has been administratively or judicially determined to be anti-competitive. *Id.* art. 31(k).

III. THE IMPORTATION OF COUNTERFEIT, PIRATED AND OTHERWISE INFRINGING GOODS

A. The TRIPS Agreement

The TRIPS Agreement requires that WTO member countries adopt "border measures."⁷⁵ A right holder who suspects that the importation of counterfeit trademark⁷⁶ or pirated copyright goods⁷⁷ may take place can lodge an application with administrative or judicial authorities for the suspension by customs authorities of the release of such goods into free circulation.⁷⁸ However, the TRIPS Agreement creates no obligation to prohibit the importation of gray-market goods.⁷⁹ While it specifically provides that WTO member countries which are also members of a customs union need not adopt border measures at borders with other countries which are members of the same customs union.⁸⁰ It also provides that WTO member countries need not adopt border measures as to "goods put on the market in another country with the consent of the right holder."⁸¹ As to the infringement of other kinds of intellectual property rights, such as patents or trade secrets, adopting the specified border measures are purely elective.

B. American Law

In understanding the gray-market problem, a comparative approach seems an appropriate starting point. The essential purpose of a patent is to reward an inventor by granting him a monopoly on the use of his invention for a limited time. Under U.S. patent law, the owner of both the U.S. and foreign patents on an invention may lawfully limit a foreign licensee's right to sell patented products in the United States.⁸² The owner may likewise sell the patented product in a foreign country with the condition that it may not be imported into the U.S.⁸³ If the licensee or a

75. See 19 U.S.C. § 1337(a).

76. "Counterfeit trademark goods" are defined as goods "bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which can not be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation[.]" *Id.* art. 51, n.14(a).

77. "Pirated copyright goods" are defined as "goods which are copies made without the consent of the right holder or person duly authorized by the right-holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation." *Id.* art. 51, n.14(b).

78. See *id.* art. 51.

79. See *supra* notes 12-15 and accompanying text.

80. See TRIPS Agreement, *supra* note 10, art. 51 n.12.

81. *Id.* art. 51 n.13.

82. See *Dunlop Co. v. Kelsey-Hayes Co.*, 484 F.2d 407 (6th Cir. 1973).

83. See *Dickerson v. Timling*, 84 F. 192 (8th Cir. 1897); see also *Brownell v. Ketcham Wire & Mfg. Co.*, 211 F.2d 121, 128 (9th Cir. 1954) (stating that a U.S. patentee may also restrict U.S. licensees from selling the patented product for export from the United States).

purchaser from the licensee attempts to import the patented goods into the United States, the patentee may file suit for patent infringement and seek injunctive relief to prevent the importation.⁸⁴ Patent holders may also utilize an administrative remedy under section 1337(a) of Tariff Act of 1930,⁸⁵ referred to by the TRIPS Agreement as a "border measure," by filing a complaint with the International Trade Commission. If the International Trade Commission finds that the importation infringes a registered patent, the Secretary of the Treasury, through the U.S. Customs Service, may then refuse the entry of goods manufactured by a particular defendant,⁸⁶ or even the entry of whole classes of infringing goods.⁸⁷

The purpose of a trademark, however, is different and trademark infringement suits to prevent gray-marketing have met with mixed results. A trademark symbolizes the mark holder's goodwill, and depending on the reputation earned for the mark, the consuming public will base their decision making on the assumption that the degree of goodwill is consistent. However, since in the case of gray-market goods, the trademark has been lawfully affixed to the goods by the foreign licensee, U.S. courts have held that it is not an infringement under the Lanham Act⁸⁸ to import such goods into the United States,⁸⁹ unless the goods are materially different than domestic goods bearing the same mark, and thus, threaten to injure the goodwill of the U.S. trademark owner.⁹⁰

As to identical goods, trademark owners have successfully utilized section 526 of the Tariff Act of 1930, which prohibits the importation of merchandise of foreign manufacture into the United States bearing a trademark registered in the U.S. Patent and Trademark Office, without the written consent of the owner of the trademark.⁹¹ In such cases, the trademark owner may file a suit under section 526 and obtain injunctive relief to prevent importation,⁹² or the individual may utilize an

84. See 35 U.S.C. § 271. While process patents presented special difficulties because the alleged infringement, use of the patented process, will not be carried out in the United States. See, e.g., *University Patents, Inc. v. Questor, Corp.*, 517 F. Supp. 676 (D.C. Colo. 1981). Section 271 has been amended to make importation of products manufactured abroad using a process patented in the United States an infringement. Pub. L. No. 100-418, 102 Stat. 1564. Prior to the amendment, process patent holders could only utilize the administrative remedy under 19 U.S.C. § 1337(a), notwithstanding Article 5 quater of the Paris Convention for the Protection of Industrial Property, which gives the process patentee the same rights as to imported products as are available with respect to products manufactured in the country of importation.

85. 19 U.S.C. § 1337(a).

86. See *id.* § 1337(d).

87. See *id.* § 1337(d)(2).

88. *Id.* Pub. L. No. 79-489, 60 Stat. 427, 15 U.S.C. § 1051 *et seq.*

89. See, e.g., *Olympus Corp. v. United States*, 792 F.2d 315 (2d Cir. 1986), *cert. denied*, 486 U.S. 1041 (1988); *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659, (3d Cir. 1989), *cert. denied*, 493 U.S. 853 (1989).

90. See, e.g., *Lever Bros. Co. v. United States*, 981 F.2d 1330 (D.C. Cir. 1993); *Societe Des Produits Nestle, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992); *Original Appalachian Artworks, Inc. v. Granada Electronics*, 816 F.2d. 68 (2d Cir. 1987); *Osawa & Company v. B & H Photo*, 589 F. Supp. 1163 (S.D.N.Y. 1984).

91. 19 U.S.C. § 1526(a).

92. 19 U.S.C. § 1526(c). *Original Appalachian Artworks, Inc. v. Granada Electronics*, 816 F.2d 68 (2d Cir. 1987); *Osawa*, 589 F. Supp. 1163 (S.D.N.Y. 1984).

administrative remedy or "border measure" by filing a copy of the certificate of trademark registration with the Secretary of the Treasury, which then permits the U.S. Customs Service to seize any infringing goods.⁹³ It makes no difference whether the U.S. registered owner consented to the affixing of the mark. This is true whether the source of the goods is a foreign licensee or a counterfeiter. Trademark owners may also utilize the same administrative remedy available to patent owners under section 1337(a) of the Tariff Act of 1930.⁹⁴

When patented or trademarked goods are marketed outside the United States, however, as the TRIPS Agreement reflects, the ability of the right holder to prevent gray-marketing quickly diminishes. While territorial restrictions on where the licensee may sell the licensed goods are normally regarded as incidental of the right of ownership of the underlying intellectual property, territorial restrictions on where the goods may be sold after they have left the hands of the licensee are almost universally prohibited. This prohibition is based on an expansive interpretation of the "exhaustion of rights" doctrine.

The doctrine of exhaustion, known in the copyright context as the first sale doctrine, is expressed in the U.S. copyright statute.⁹⁵ In the patent area, the doctrine of judicial creation has been applied so as to prohibit a patent holder from controlling the price at which a licensee sells a patented invention,⁹⁶ or from limiting the source from which the licensee may obtain components or supplies to be used with the patented invention.⁹⁷ However, the doctrine has never been interpreted to mean that all sales of the patented invention exhaust the patent owner's rights. For example, where the patent owner licensed the manufacture and sale of amplifiers only for radio reception, a purchaser from the licensee could not lease the amplifiers to movie theaters.⁹⁸

93. 19 U.S.C. § 1526(b). *But see* 19 C.F.R. § 133.21(c); *Cf. K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988). The U.S. Customs Service will not, however, seize goods manufactured abroad when the U.S. trademark owner also owns the foreign trademark or the goods are manufactured by the U.S. trademark owner or its affiliate. In such circumstances, the U.S. trademark owner's remedy is limited to bringing an action for trademark infringement directly under the Lanham Act, 15 U.S.C. § 1051 *et seq.*, seeking injunctive relief to enjoin the importation. *Original Appalachian Artworks, Inc.*, 816 F.2d. 68 (2d Cir. 1987).

94. 19 U.S.C. § 1337(a)(1)(C).

95. 17 U.S.C. § 109 provides:

(a) Notwithstanding the provisions of section 106(3) [giving the copyright owner the exclusive right to distribute or authorize the distribution of copies or phonorecords of a copyrighted work], the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

Thus, U.S. law provides no protection from gray-market imports of copyrighted goods. *Quality King Distributors, Inc. v. L'anza Research Int'l, Inc.*, 523 U.S. 135 (1998).

96. *See Bauer & Cie v. O'Donnell*, 229 U.S. 1 (1913).

97. *See Motion Picture Patents Co. v. Universal Film Co. Mfg.*, 243 U.S. 502 (1917).

98. *See General Talking Pictures Co. v. Western Electric Co.*, 304 U.S. 175 (1938), *aff'd*, 305 U.S. 124 (1938).

U.S. law has generally permitted the patent owner to place restrictions on the territory within which a licensee may make, use or sell a patented invention,⁹⁹ including limitations on a foreign licensee's ability to import the patented products into the United States.¹⁰⁰

C. European Union Law

The European Court of Justice, faced with the task of reconciling the intellectual property laws of each of its fourteen member states with the Treaty on European Union,¹⁰¹ which guarantees the free movement of goods within the European Union,¹⁰² has applied the doctrine of exhaustion more broadly.

The leading case is *Centrafarm BV v. Sterling Drug, Inc.*,¹⁰³ and it involved an American company owning the patent to a pharmaceutical drug for the treatment of urinary tract infections in both the United Kingdom and the Netherlands. It brought suit to prevent the importation of the drug into the Netherlands, which had been obtained by the importer from licensees in the United Kingdom.¹⁰⁴ The court interpreted the patent owner's rights narrowly, defining a patent as a guarantee that the patent owner has the right to use the invention with a view to manufacturing industrial products and "putting [the products into circulation] for the first time."¹⁰⁵ Thus, once the products protected by the patent are sold within the European Union, the patent holder may not place territorial restrictions on their subsequent resale within the Union. The Court wrote:

[T]he exercise by a patentee of the right [he enjoys under the legislation of] a member-State to prohibit [the sale] in that state of a product protected by [a] patent [which has been marketed] in another member-State by such patentee or with his consent [is] incompatible with the rules of the EEC Treaty [concerning] the free movement of goods [within] the Common Market[.]¹⁰⁶

99. See *Brownell v. Ketham Wire & Mfg. Co.*, 211 F.2d 121 (9th Cir. 1954); see generally 35 U.S.C. § 261. The Patent Act also provides:

Applications for patents, or any interest therein, shall be assignable in law by an instrument in writing. The applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under this application for patent, or patents, to the whole or any specified part of the United States.

100. See *Dunlop Company Limited v. Kelsey-Hayes Company*, 484 F.2d 407 (6th Cir. 1973).

101. 1992 O.J. (L 293) 61.

102. *Id.* art. 30-34.

103. Case 15/74, *Centrafarm BV v. Sterling Drug* 14(2) C.M.L.R. 480 (1974).

104. See Treaty on European Union, *supra* note 101, at 98. The motivation of the importer was that the drug was sold in the United Kingdom under strict price controls, for about half the price at which it was sold in the Netherlands.

105. *Id.* at 496.

106. See *Centrafarm*, *supra* note 103, at 504.

To enjoin the importation in circumstances, said the Court, would permit the patent holder to divide the member states of the European Union into a separate national market, which is contrary to the idea of having a common market. The same reasoning has been applied by the Court to the importation of trademarked goods¹⁰⁷ and copyrighted works,¹⁰⁸ and the European Commission has extended it to technology transfer agreements involving patents and know-how.¹⁰⁹ When faced with the question of whether the owner of a trademark could prevent the importation of goods bearing his trademark from *outside* the EU, the European Court of Justice has always answered that question affirmatively,¹¹⁰ since the exclusive right to use the mark guaranteed by municipal law is not inconsistent with any guarantee on the free movement of goods within any customs union:

[T]he exercise of a trademark in order to prevent the marketing of products coming from a third country under an identical mark, even if this constitutes a measure having an effect equivalent to a quantitative restriction, does not affect the free movement of goods between member states and thus does not come under the prohibitions set out in Article 30 *et seq.* of the Treaty.¹¹¹

The TRIPS Agreement does not require members of customs unions to establish border measures for gray-market goods being imported from countries which are members of the same customs union.¹¹² Further, it does not require any WTO member to establish border measures for gray-market goods, *whether or not the goods are being imported from a country which is part of the same customs union as the country of importation*. It does this first, by way of a footnote providing that countries need not adopt border measures as to goods put on the market in another country by or with the consent of the right holder,¹¹³ and then by an article providing that “nothing in [the TRIPS A]greement shall be used to address the issue

107. See generally *Centrafarm BV v. Winthrop BV*, [1974] 2 C.M.L.R. 480. The exhaustion of rights doctrine is not applied, however, where there is no economic connection between the importer and the one opposing importation. *Case 10/89, CNL-Sucal v. Hag*, [1990] 3 C.M.L.R. 571.

108. See generally *Case 108/1970, Deutsche Gramophone v. Metro-SB-Gross Markets and Co.*, 1 C.M.L.R. 631 (1971).

109. See Commission Regulation No 240/96 (Jan. 31, 1996), on the application of Article 85(3) of the Treaty on European Union to certain categories of technology transfer agreements in Articles 3(3)(b), 7(3)(a) and (b).

110. See *Case 51/75, EMI Records, Ltd. v. CBS United Kingdom, Ltd.*, 1976 E.C.R. 811; see also *Case 86/75, EMI Records, Ltd. v. CBS Grammofon A/S*, 1976 E.C.R. 871; *EMI Records, Ltd. v. CBS Schallplatten GmbH*, 1976 E.C.R. 913. The most recent case on this subject is *Case C-355/96, Silhouette Int'l Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, 1998 E.C.J. CELEX LEXIS.

111. *Silhouette*, 1998 E.C.J. CELEX LEXIS.

112. See TRIPS Agreement, *supra* note 10, art. 51 n.12.

113. See *id.* art. 51 n.13.

of the exhaustion of intellectual property rights.”¹¹⁴ Thus, developing countries need not protect right holders from gray-market goods.

IV. CONCLUSION

The TRIPS Agreement, for the first time, establishes international standards for intellectual property rights. It also establishes a dispute resolution system to resolve intellectual property disputes between WTO member countries. From this point on, disputes arising out of a failure to protect intellectual property rights may be resolved by resorting to the procedures available to WTO member countries to resolve trade disputes generally, including, for the recalcitrant, the imposition of appropriate trade sanctions.¹¹⁵ This is a radical departure from the past. Countries which fail to adequately protect intellectual property face the threat of retaliation, not by unilateral measures undertaken by the United States, but by the multilateral trading system under the auspices of the WTO.

However, the TRIPS Agreement provides no protection to right holders from gray-market imports. This failure appears to be political and based on the notion that doing so would assist multinational enterprises, largely based in developed countries, in engaging in market division, price discrimination, and a host of other anti-competitive and imperialistic practices. There is a very real danger that the exhaustion of rights doctrine, used by the European Court of Justice in parallel importation cases and incorporated into the TRIPS Agreement, may be further extended by WTO member countries in failing to provide any protection to right holders from directly infringing imports.

114. *See id.* art. 6.

115. The TRIPS Agreement, by reference to the Understanding on Rules and Procedures for the Settlement of Disputes, provides that disputes between WTO members under the TRIPS Agreement shall be settled by consultations, and if no satisfactory adjustment can be reached, a complaint may be made to the Dispute Settlement Body of the WTO, which then establishes a panel to decide the dispute. *See id.* art. 64(1); Understanding on Rules and Procedures for the Settlement of Disputes arts. 4 & 6; Agreement Establishing the World Trade Organization Annex 2. However, unless the dispute involves an alleged failure by one party to carry out its obligations under the agreement, which “nullif[ies] or impair[s]” any benefit accruing to a member under the WTO Agreements, GATT (1994) art. XXIII(1)(a), during the first five years from the date the WTO Agreements enters into force, complaints for so-called non-violation nullification or impairment can be made only to the Council for TRIPS, rather than to the Dispute Settlement Body. *See* TRIPS Agreement, *supra* note 10, art. 64(2) & (3). The Council shall then submit its recommendations to the Ministerial Conference of the WTO. *See id.* art. 64(3). The Ministerial Conference may then authorize the complaining member to suspend tariff concessions or other obligations under the WTO Agreement to the other member, “as they determine to be appropriate in the circumstances.” GATT (1994) art. XXIII(2).