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Intellectual Property and International Trade: Merger or Marriage of Convenience?

R. Michael Gadbaw

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*R. Michael Gadbaw**

TABLE OF CONTENTS

I. INTRODUCTION

The Omnibus Trade and Competitiveness Act of 1988[1] has inscribed the protection of intellectual property rights as one of the principal priorities of United States trade policy. The mandate to negotiate improved protection in other countries is supported by the statutory authority of

* Partner, Dewey Ballantine, Bushby, Palmer and Wood, Washington, D.C. J.D., 1974, University of Michigan School of Law and the Institut des Hautes Etudes Internationales; M.A., 1970, Fletcher School of Law and Diplomacy; B.A., 1969, Fordham University; C.E.P., 1968, Institut D'Etudes Politique, Paris, France.

1. Pub. L. No. 100-418, 102 Stat. 1107 (1988) (to be codified at 42 U.S.C. § 5403) [hereinafter 1988 Trade Act]. Section 1101(b)(10) of the 1988 Trade Act sets forth United States negotiating objectives regarding intellectual property, while section 1303 outlines procedures for identification of countries that deny adequate protection of, or market access for, intellectual property rights.

section 301,[2] which permits the government to use trade measures as leverage to achieve certain minimum standards of protection world-wide. This congressional directive calling for a coordinated approach toward trade and intellectual property did not, however, set a new policy course; rather, it confirmed a direction that United States policy had taken for a number of years. Indeed, the extent to which common approaches and principles have come to influence international trade and intellectual property rights policies in recent years invites the question whether we are witnessing a merger of these previously separate policy pursuits.

The recognition that intellectual property should be part of a broader set of issues is less dramatic when one considers the approaches of other countries. For most developing and many developed countries, intellectual property is seen less as a body of fundamental rights than as a subset of their general economic policies, to be managed for their contribution to economic growth and industrial development.[3] This utilitarian

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2. Section 301 of the Trade Act of 1974, as amended by the 1988 Trade Act, provides that if United States rights or benefits under a trade agreement are violated or an action, policy, or practice of a foreign country is found to unjustifiably burden or restrict United States commerce, the United States Trade Representative (USTR) may

> (A) suspend, withdraw, or prevent the application of, benefits of trade agreement concessions . . .; (B) impose duties or other import restrictions on the goods, . . . and fees or restrictions on the services of, such foreign country . . .; or (C) enter into binding agreements with such foreign country . . . [to] (i) eliminate . . . the [unfair] act, policy, or practice . . . [or] (iii) provide the United States with compensatory trade benefits.

Trade Act of 1974, Pub. L. No. 93-618, § 301 (relating to actions by the President), *as amended by* the 1988 Trade Act, *supra* note 1, § 1301(a) (to be codified at 19 U.S.C. § 2411). The 1988 Trade Act's amendments to section 302 of the Trade Act of 1974 provide special expedited procedures for investigations under section 301 that involve countries identified as denying adequate and effective protection of, or market access for, intellectual property. *See* Trade Act of 1974, § 182 (relating to identification of countries that deny adequate and effective intellectual property protection), as added by 1988 Trade Act, *supra* note 1, at § 1303(b), 102 Stat. 1179 (to be codified at 19 U.S.C. § 2242); § 302(b)(2) (relating to initiation of investigations with respect to acts, policies, or practices of priority countries identified under section 182(a)(2)), *as amended by* 1988 Trade Act, *supra* note 1, § 1301(a), 102 Stat. 1169 (to be codified at 19 U.S.C. § 2412 and § 304(3) (relating to time limits for investigations initiated under section 302(b)(2)), *as amended by* 1988 Trade Act, *supra* note 1, at § 1301(a), 102 Stat. 1171 (to be codified at 19 U.S.C. § 2414).

3. A publication by the Latin American Association of Pharmaceutical Industries reflects this view:

> Patents, with the monopoly they provide for imports, would eliminate the local production of raw materials which has arisen in various countries of the region, worsening the balance of trade by several billion dollars, and therefore, would reserve the markets of the region for exports from the United States and other

attitude reflects in part different cultural and philosophical traditions and explains some of the resistance to United States efforts to secure improved intellectual property protection abroad.

This Article examines the interaction between trade and intellectual property rights policies through certain key developments in United States law, the General Agreement on Tariffs and Trade (GATT)[4] and the World Intellectual Property Organization (WIPO).[5] While this brief review is not intended to provide a definitive analysis, it will offer worthwhile insights into the prospects for, and implications of, such a merger. For this purpose, this Article considers the efforts in GATT to negotiate a code on intellectual property rights and the parallel efforts in WIPO to negotiate a treaty for the protection of semiconductor designs. While the GATT talks moved through their midterm review in April 1989,[6] WIPO was scheduled to hold a diplomatic conference to conclude a semiconductor treaty in May.[7] This Article focuses on the extent to

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developed nations at prices higher than international price levels. INTELLECTUAL PROPERTY RIGHTS: GLOBAL CONSENSUS, GLOBAL CONFLICT? 2 (R. M. Gadbaw & T. Richards eds. 1988) [hereinafter GLOBAL CONSENSUS] (citing *Industria Farmaceutica Latino-Americana: Patentes: la Rambonomio en Accion*, year 5, no. 9, 29 (June 1986) (Translation)).

4. 61 Stat. A3, 1366, T.I.A.S. 1700, 51-61 U.N.T.S. The GATT is both an international set of rules governing trade and an institution that administers those rules and oversees multilateral trade negotiations. It was originally designed as a temporary agreement to protect the value of tariff concessions negotiated after World War II until the International Trade Organization (ITO) (envisioned as a third major international economic policy organization that would function alongside the World Bank and the International Monetary Fund) came into existence. The ITO charter, however, was never ratified, and the GATT institution essentially took its place. For a detailed discussion of the history of the GATT, see J. JACKSON, WORLD TRADE AND THE LAW OF GATT (1969); and R. HUDEC, THE GATT LEGAL SYSTEM AND WORLD TRADE DIPLOMACY (1975).

5. WIPO was organized in 1963 to oversee several of the major international agreements on intellectual property rights protection (including the Berne and Paris Conventions). One of WIPO's missions is to promote the protection of intellectual property rights through technical assistance and educational support. Convention Establishing the World Intellectual Property Organization, July 14, 1967, 21 U.S.T. 1749, T.I.A.S. No. 6932, 828 U.N.T.S. 3.

6. The Trade Negotiations Committee held a meeting at the level of high officials in the first week of April 1989. One of the topics discussed at this meeting was the trade-related aspects of intellectual property rights. *Trade Negotiations Committee Meeting at Ministerial Level Montreal, December 9, 1988*. GATT Doc. MTN.TNC/7 (MIN) (1988).

7. *Report on the Diplomatic Conference for the Conclusion of a Treaty on the Protection of Intellectual Property in Respect of Integrated Circuits to be Held in Washington, D.C., May 8-26, 1989*, WIPO Doc. IPIC/DC/4 (1989). To review the latest draft

which trade policy concepts have come to invade the intellectual property rights arena and, similarly, the penetration of intellectual property rights into the fabric of international trade law and policy. In the process, the Article discusses some of the central dilemmas facing United States policy: can the GATT accommodate the notion that implicit in the balance of GATT concessions is the requirement that GATT members respect minimum standards for the protection of intellectual property? Is reciprocity a workable principle for the enforcement of intellectual property rights? Finally, can WIPO be receptive to an enhanced system of enforcement and dispute settlement as a means of instilling greater discipline and rigor into its system of rules?

In an effort to gain further insight into some of these issues, this Article also examines the operation of the Semiconductor Chip Protection Act of 1984 (SCPA),[8] a sui generis United States law whose reciprocity provisions have spurred a number of countries to enact similar laws to protect chip designs.

II. THE TRADE PARADIGM

The integration of intellectual property and international trade policy has spawned a consensus in industry and government around certain basic principles:

(1) trade and intellectual property rights are part of a common set of policies that must be integrated in the interest of maintaining United States competitiveness;

(2) the United States should insist on the application and enforcement of certain minimum standards of intellectual property protection in all countries in which the United States is commercially engaged;

(3) trade and other commercial concessions that the United States grants other countries should be conditioned upon adherence to these standards; and

(4) international agreements should embody these minimum standards and ensure that they are enforceable as a matter of both domestic and international law.

Until relatively recently, intellectual property and international trade policies were relegated to distinct and separate spheres. Each was based upon its own set of domestic laws and international agreements, al-

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of the treaty, see *Diplomatic Conference for the Conclusion of a Treaty on the Protection of Intellectual Property in Respect to Integrated Circuits*, WIPO Doc. IPIC/DC/3 (1989).

8. Pub. L. No. 98-620, 98 Stat. 3347 (codified at 17 U.S.C. §§ 901-14) (Supp. IV 1987).

though common principles such as national treatment were central features of the international agreements in both domains.[9] Entirely distinct bureaucracies administered these laws and agreements both at the national and international levels, and their efforts were rarely viewed as requiring coordination, except perhaps in light of foreign political—as distinct from economic—policy considerations.

More than any other factor, the concerns of the private sector seem to have been instrumental in changing this perspective. United States companies with substantial investments in foreign countries have contended with the question of protecting their intellectual property under the legal regimes of their host governments for many years. Most companies viewed this situation as a local problem that could be addressed by negotiating an acceptable arrangement with a host government from the outset. The United States Government was perhaps part of this strategy, but only in subtle and low-key ways.

In the course of the 1970s, however, United States companies apparently began to rethink this approach in light of certain technological, political, and economic developments in the countries in which they operated.[10] Technological changes in some cases made it much easier to copy products. With economic development came the desire to promote entirely indigenous industries. Coupled with higher standards of living (which created a greater local demand for consumer products), certain countries became centers of piracy. In some countries, political forces were able to roll back the level of protection provided. In India, for example, a change in the patent law withdrew protection for pharmaceutical products.[11] In some cases, local nationals who had previously worked for foreign companies played key roles in promoting the development of indigenous industries whose business model was build around copying

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9. For a review of the principles in various trade and intellectual property agreements, see H. STALSON, PROTECTION OF INTELLECTUAL PROPERTY RIGHTS AND U.S. COMPETITIVENESS IN INTERNATIONAL TRADE (1987).

10. Among the major developments which caused United States companies to reconsider their previous approach were: (1) the increased role of intellectual property-based products in international trade; (2) the creation of a global marketplace through improved international communication; (3) the facilitation of piracy of many forms of intellectual property as a result of the development of inexpensive technologies (*e.g.*, for the reproduction of audio and video tapes and of radio and television broadcasts); (4) the increased level of research and development (R&D) required in certain industries to develop new products; and (5) the fact that some new technologies do not fit cleanly within any of the existing types of intellectual property protection. GLOBAL CONSENSUS, *supra* note 3, at 3-5.

11. *Id.* at 192.

and piracy of intellectual property rights of their former employers.[12]

As these developments began to overwhelm the ability of United States companies to cope using their traditional approach of working through local operations, the option of involving the United States Government in a more activist role became more attractive. The issue was not simply an erosion in protection of intellectual property rights, but the range of investment-related restrictions that countries seemed increasingly inclined to impose.[13] Meanwhile, the United States Government began to reevaluate its policy of benign neglect toward United States investment abroad, and attention turned to the United States Trade Representative (USTR) as the agency most receptive to industry concerns and in the best position to coordinate efforts by the United States Government to develop responses. By 1979, USTR had authority to address investment issues both through the negotiation of agreements and the use of trade measures to respond to certain forms of investment restrictions.[14]

These developments were significant because the private sector began to look to trade policy as a tool to deal with a range of issues beyond the traditional scope of trade negotiations—issues that relate to the entire environment that United States companies confront in other countries. The private sector was attracted to the network of procedures, advisory mechanisms, and political relationships which gave industry a greater feeling that its concerns were understood and that the strategy it worked out with the United States Government would be implemented in a forthright, assertive manner, with greater insulation from foreign policy-inspired interference than had characterized the resolution of such issues in the past.

Companies ultimately saw the possibility that the United States Government would be willing to use the leverage inherent in access to the United States market as a means of stimulating countries to upgrade their level of protection. Not coincidentally, some of the countries that posed the most serious problems were heavily dependent upon trade with the United States.[15]

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12. *Id.* at 186.

13. For examples of such restrictions, see *Performance Requirements, A Study of The Incidence and Impact of Trade-Related Performance Requirements, and an Analysis of International Law*, Labor-Industry Coalition for International Trade (LICIT) (March 1981). *See also* Fontheim & Gadbaw, *Trade-Related Performance Requirements Under the GATT-MTN System and U.S. Law*, 14 L. & POL. INT'L BUS. 129 (1982).

14. Reorganization Plan No. 3 of 1979, § 1(b)(1), (2), 44 Fed. Reg. 69,273 (1979) (effective Jan. 2, 1980).

15. *See* GLOBAL CONSENSUS, *supra* note 3, at 10-26.

The Trade Act of 1984[16] provided a Congressional mandate to carry out this new policy direction concerning the protection of intellectual property rights. The law required the President to take into account the protection a foreign nation affords to intellectual property rights when determining (1) the nation's eligibility for the Generalized System of Preferences (GSP)[17] program and (2) whether the actions of the nation should be considered "unjustifiable" or "unreasonable" for purposes of section 301 of the Trade Act of 1974.[18] Similarly, the Caribbean Basin Economic Recovery Act[19] offered special tariff treatment to nations of the Caribbean Basin, provided that the President takes into account the adequacy of intellectual property protection provided by a nation in determining its eligibility for this special treatment.[20] What followed was a rather striking series of successes for this policy of linking trade and intellectual property rights. In a succession of bilateral initiatives, the Administration secured major changes in the intellectual property rights regimes of Korea, Taiwan, and Singapore. These comprehensive changes covered patents, copyrights, and trademarks and addressed the entire range of concerns that had plagued United States companies.[21]

While these early successes seemed to confirm the effectiveness of this

16. Trade and Tariff Act of 1984, Pub. L. No. 98-573, 98 Stat. 2948.

17. *Id.* § 503(c)(5), 19 U.S.C. § 2462 (c)(5) (1982 & Supp. V 1987). The GSP program provides for special tariff preferences for imports from designated developing nations. 19 U.S.C. §§ 2461-65. The legislative history of the provision linking intellectual property protection to receipt of GSP benefits indicates a congressional intent that the President consider the following factors, in determining whether a country is providing "adequate and effective means" for foreign nations to secure and enforce intellectual property rights: the extent of statutory protection for intellectual property (including the scope and duration of such protection); the remedies available to aggrieved parties; the willingness and ability of the government to enforce intellectual property rights on behalf of foreign nationals; the ability of foreign nationals to enforce their intellectual property rights on their own behalf; and whether the country's system of law imposes formalities or similar requirements that, in practice, are an obstacle to the meaningful protection for foreign nationals not imposed on domestic concerns. H.R. REP. No. 1090, 98th Cong., 2d Sess. 12-13, *reprinted in* 1984 U.S. CODE CONG. & ADMIN. NEWS 5112-13.

18. Trade and Tariff Act of 1984, Pub. L. No. 98-573, § 304(f)(2), 98 Stat. 3005, § 301(e) of the Trade Act of 1974, Pub. L. No. 93-618, 19 U.S.C. § 2411(e), *see supra* note 2. Section 301 provides the President with the authority to seek the elimination of a foreign nation's unjustifiable or unreasonable trade practices (where such practices burden United States commerce) and authorizes the restriction of imports from that nation if such practices are not eliminated. *See* 19 U.S.C. §§ 2411-16 (1982 & Supp. V 1987).

19. Pub. L. No. 98-67, 97 Stat. 369 (codified at 19 U.S.C. § 2702 (Supp. V 1987)).

20. *Id.* § 212(c)(9), 19 U.S.C. § 2702(c)(9).

21. For a detailed analysis of these changes, see GLOBAL CONSENSUS, *supra* note 3, at 272-377.

strategy, its limitations become evident when balanced against its failures in other areas. Trade leverage has proved most effective in stimulating reforms in countries that are especially dependent upon trade with the United States.[22] When such countries' access to the markets of Europe and Japan is included, the case for accommodating concerns about intellectual property rights is two to four times as compelling.[23] A trade-leveraged strategy is likely to be less effective in countries that are less dependent on exports to the Western industrialized nations, or in which other considerations outweigh the trade implications of failure to address United States concerns.[24]

The United States strategy of conditioning trade concessions on provision of intellectual property protection inevitably had to confront the issue of its compatibility with the framework of rules and negotiating procedures in GATT. The effectiveness of trade leverage is in fact quite limited if its use cannot somehow be justified under the GATT rules. The use of measures whose GATT-consistency is questioned provokes accusations of unilateralism and raises the threat that other countries will feel justified in responding in kind. The problem, however, is that GATT contains only limited references to intellectual property rights—reflecting the relative non-importance of intellectual property rights as an international issue in 1974.[25]

This somewhat static perspective on GATT rules argues strongly for a new agreement that binds GATT members to a higher standard of obligation with respect to intellectual property rights than is presently mandated in any international agreement. This approach is problematic, however, because it puts the issue entirely into a negotiating context; that is, to obtain concessions on standards from other GATT members, the United States and others would be expected to offer something in return. Like-minded countries will likely be willing to accept the minimum standards that the United States seeks in return for a commitment that the United States will forego recourse to unilateral responsive measures (other than those contemplated by the agreement). But for countries unwilling to embrace the standards, there are only two alternatives in this paradigm: (1) persuade the United States and other countries to agree to compromise on the standard of protection; or (2) provide concessions in other areas. The first of these alternatives is unacceptable to the United States business community and the second is highly problematic.

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22. *Id.* at 21-26.
23. *Id.* at 24-25.
24. *Id.* at 26.
25. *See id.* at 43.

The quest for an escape from this predicament has attracted some very thoughtful and creative ideas. One of the most attractive of these is the notion that it is unnecessary to concede on the basic standards of protection because it would be better to make an agreement solely among like-minded countries, rather than attempting to obtain the participation of countries that would be unwilling at this point to subscribe to those standards. Among those countries, procedures would then be designed to facilitate trade on the basis that one signatory need not have to worry about compliance with intellectual property rights standards when goods cross borders from another signatory state. Ideally, these trade facilitation measures later would be sufficiently appealing to attract other countries as signatories even at the price of upgrading their standards in ways they might otherwise resist.

This approach presents a problem because non-parties to this agreement could argue that it violates any number of other GATT rules designed to ensure that countries do not use border measures or procedures for purposes other than those explicitly contemplated by GATT. In short, if protection of intellectual property rights cannot be considered part of the bundle of original GATT obligations, even the best-intentioned group of GATT members will be hard-pressed to impose it on unwilling countries. The United States seems ready to face this issue squarely in its confrontation with Brazil over pharmaceutical products: the United States has decided to retaliate against Brazilian piracy by withdrawing certain trade concessions. Brazil has responded by seeking a GATT panel determination as to whether such measures are authorized under GATT.[26] This case raises the issue of whether the United States has a GATT defense to its actions even without a new GATT code on intellectual property.

The only possible United States defense appears in article XXIII of GATT, which permits a contracting party to claim a nullification or impairment of GATT rights as a result of either a violation of the GATT or any other measure that has the effect of denying the party rights for which it has bargained.[27] Although a case can be made that failure to protect intellectual property rights amounts to such a nullification or impairment, there is virtually no chance that a GATT panel would accept the defense in the Brazilian case.

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26. *See United States Isolated As It Resists Call for Probe of Tariffs on Brazilian Goods*, [Jan.-June] Int'l Trade Rep. (BNA) 23 (Jan. 4, 1989); *U.S. Accepts Creation of GATT Panel to Study Sanctions on Brazilian Pharmaceutical Goods*, [Jan.-June] Int'l Trade Rep. (BNA) 238 (Feb. 22, 1989).

27. GATT, *supra* note 4, art. XXIII, 55 U.N.T.S. 187.

The United States nevertheless can make a fairly compelling case that article XXIII was crafted specifically to take into account the predicament in which the United States finds itself.[28] When GATT was negotiated, less than ten percent of United States exports were in any way tied to intellectual property.[29] Since that time, the importance of products that embody intellectual property rights has increased dramatically: intellectual property-based industries have been among the fastest growing sectors of the United States economy.[30] While the United States may well have negotiated GATT concessions on these products over the years, it did so on the expectation that the value of those concessions would not be undermined by something that substantially undercuts and even eliminates the value of the original concessions.

A simple example may help to illustrate this point. Assume that in early rounds of trade negotiations, the United States reduced its tariff on shoes. In return, the United States received concessions from Brazil on sound recordings. The United States felt this was a good trade-off because Brazil was a large market for music. If it turns out that the United States can only export one record, which is then copied and distributed throughout Brazil by local record and tape companies who pay nothing to the United States copyright holder, clearly the value of that concession has been seriously impaired in a way that was not within the reasonable expectations of the United States.

The same principle can be extended to software, computers, chemicals, and pharmaceutical products, although the facts and circumstances surrounding any particular concession would need to be considered. This argument causes problems in the context of a particular case because it is difficult to contain, and GATT precedents suggest that GATT panels are very reluctant to embrace such broad, almost constitutional, arguments. The issue is further complicated by the fact that Brazil may not have been party to the original negotiation in which the United States lowered its shoe tariff. It may have been a "free rider" or simply come along later with a competitive shoe industry able to take advantage of a concession negotiated and paid for by others.

The difficulty of persuading a GATT panel to accept this analysis does not detract from the possibility that, as a matter of fundamental political and economic dynamics, the analysis is correct. The United

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28. *See* R. HUDEC, *supra* note 4, at 46-48 (discussing article XXIII and the nonviolation nullification or impairment doctrine).

29. GLOBAL CONSENSUS, *supra* note 3, at 4, chart 1.1.

30. By 1986, over 27% of United States exports contained an intellectual property component. *Id.*

States economy has moved steadily into areas where the value of its products is tied to intellectual and artistic creativity. If these assets are as vulnerable to plunder as the slow-moving merchant ships of the 1700s were to the Barbary pirates, the United States ability to trade with countries that harbor such pirates could be seriously hampered. Harm to United States interests is exacerbated when the pirates can turn around and exploit their bounty by reproducing it for sale in domestic and foreign markets as though it were their own, thereby further damaging the export potential of United States industry.

The point is that what may not be compelling in the context of a GATT panel proceeding may well be more compelling in the give-and-take environment of negotiations, in which the specifics of any particular trade-off can be obscured in the context of an overall package and every negotiator can—and most certainly will—return to her country and claim that she got more than she gave. Here again, however, there is ample room for pessimism: not only are countries unwilling to accede to a higher standard of protection for intellectual property rights in the context of a new code, but they are also using GATT rules to challenge procedures employed by the United States to protect its rights holders from imports of infringing products. Indeed, according to a recent GATT ruling on section 337, a number of aspects of the United States procedures to address infringement by imported products violate GATT rules regarding national treatment.[31] If this finding is upheld by the GATT Council—and tradition indicates that it will be, despite United States objection—it will undercut the existing regime for protecting intellectual property in the United States, and might also jeopardize the effort to negotiate enhanced protection in the new GATT Round.

Thus, we come to the final predicament for United States policymakers: persuading our trading partners that we are serious about our priorities and that more fundamental changes in the United States posture

31. A GATT panel, convened at the request of the European Community, found that a number of the procedures embodied in section 337 of the Tariff Act of 1930, 19 U.S.C. 1202 (1982 & Supp. V 1987) (codified as amended 19 U.S.C. § 1337 (1982 & Supp. V 1987)) discriminate against foreign companies by denying them the rights available to domestic defendants. Under section 337, the United States International Trade Commission (ITC) can adjudicate claims of foreign patent infringements, an activity which is carried out only by federal courts in cases involving domestic products. The panel found that section 337 gave United States industry plaintiffs the ability to choose in which forum to attack foreign products. These same plaintiffs had no such choice in cases involving domestic products. The report also identified other ITC procedures under section 337 which it found discriminated against foreign defendants. *U.S. Agonizes Over Patent Rules*, Fin. Times (London), Feb. 7, 1989, at 20, col. 1.

in the GATT and elsewhere will occur if progress cannot be made on this issue. This is perhaps the real Achilles Heel of the United States because our constitutional structure—indeed, our very historical and cultural heritage—makes it extraordinarily difficult for us to unite behind a common vision or set of priorities. As United States officials are fond of pointing out, we have no single industrial policy. In fact, we have hundreds of policies, all pursued by individuals and groups who believe that they have a better way to compete. When translated at the governmental level, this kind of atomized approach means that every agency feels free to pursue its own agenda unrestrained by any sense of priority or even a need to coordinate in pursuit of common objectives.

Fortunately, this extremist view is not truly accurate. Rather, the extent to which a common sense of priorities seems to be permeating the various agencies is striking. Driving this need to unite behind some common objectives is the sense of crisis over the decline in United States competitiveness and the seriousness of our trade and budget deficits. To test this hypothesis, one may assess the issue of the merger of trade and intellectual property from a different perspective, namely, that of the traditional intellectual property arena. To do this, we will focus on semiconductor mask works because this case affords an opportunity to see the results when a new form of intellectual property right is created in the middle of the international debate over the need to provide better protection. The United States semiconductor example allows us to consider, if we could start from scratch, what we would do to ensure protection in other countries. Would the United States take a different approach to the negotiation of international protection? Finally, what messages are we sending to other countries by the way we are handling this international issue?

III. The Intellectual Property Rights Paradigm

It would be a mistake to trace the source of the policy shift regarding trade and intellectual property to any single event or decision. It is helpful to consider, however, the events of 1983-84 that helped mobilize political support for enhanced protection of intellectual property as an essential element in enhancing United States competitiveness in high technology. In a 1983 address to the nation, President Reagan pledged to maintain America's technological superiority into the next century. In its response, the Democratic Party focused on the need to promote competitiveness through a more concentrated focus on research and development. Indeed, the country had not seen an equivalent challenge since President Kennedy launched the United States space program in response to the Soviet Sputnik rocket.

The irony of this scenario is that neither party had a very clear picture of what measures should be pursued. When asked for its program, the White House admitted that the President's pledge was a last minute addition without backup papers. This vacuum did not survive for long, however; the private sector emerged with a series of initiatives intended to capture the renewed political attention to United States technological leadership. In virtually every program advanced, both trade and intellectual property issues featured prominently.

The other irony is that this resurgent interest in high technology and competitiveness followed an intense debate during the late 1970s and early 1980s over the merits of industrial policy and, more specifically, the use of trade measures as an instrument of such policy. Largely conducted in the editorial pages, the debate added little to public understanding of the issues because it tended to be limited to rhetorical posturing over the merits of free trade versus protectionism, without much focus on the merits of the proposals being advanced. According to this rhetoric, if Congress were allowed to legislate trade measures, it would repeat the debacle of the Smoot-Hawley tariff legislation of 1930.[32] In retrospect, it took Congress ten years to demonstrate—in the Omnibus Trade and Competitiveness Act of 1988—that it could indeed legislate measures to promote international competitiveness without indulging itself in excess.

The crucial difference between what occurred in 1983-84 and the earlier period is that the latter debate was driven largely by the private sector. Industries that previously were strangers to the Washington scene began to emerge and organize themselves in pursuit of public policies that were more responsive to the competitive challenges that they faced. In early 1983, the United States Semiconductor Industry Association advanced a six-point legislative platform constructed on the premise that the United States needed a series of interrelated policy measures. Important among these was the need to protect the intellectual property rights of semiconductor producers, particularly as they relate to the ever more complicated designs of semiconductor masks. The United States could accomplish this objective only by extending intellectual property laws to cover semiconductor designs.

For several years, the United States has been working with some thirty-five other countries in a series of negotiations to fashion a treaty

32. Act of June 17, 1930, Pub. L. No. 71-361, 46 Stat. 590, repealed 1948. For a discussion of the consequences of the Smoot-Hawley legislation (which raised duties to the highest level in United States history and was followed by similar trade restrictions by other countries), see R. HUDEC, *supra* note 4, at Chapter 1.

for the protection of semiconductor chip designs. At issue is the intellectual property embodied in the design of circuits that allow semiconductors to perform their various functions, from storing memory to managing complex computational tasks. For the semiconductor industry, the treaty would codify an emerging international consensus that the innovation and research that culminates in the creation of new designs is worthy of legal protection. But the outcome of these negotiations could well have implications beyond semiconductors, considering that the United States is currently seeking to engage the international community in bilateral and multilateral efforts to provide better protection of intellectual property rights in all of their various forms.

The stage for these negotiations was set by the enactment in the United States of the Semiconductor Chip Protection Act of 1984 (SCPA),[33] followed in 1985 by the enactment of a similar law in Japan.[34] The inclusion in United States law of reciprocity provisions that grant protection in the United States only to nationals of foreign countries that provide comparable protection to United States nationals under their own laws especially caught the attention of other countries with indigenous semiconductor industries.[35] Eighteen countries[36] have applied for and received reciprocal protection for their nationals in the United States based on a showing that they were taking reasonable steps toward

33. Semiconductor Chip Protection Act of 1984, Pub. L. No. 98-620, 98 Stat. 3347 (codified at 17 U.S.C. §§ 901-14 (Supp. V 1987)) [hereinafter SPCA].

34. Act Concerning the Circuit Layout of a Semiconductor Integrated Circuit, Law. No. 43 of 1985, (July 1985) (Japan) (Ministry of International Trade and Industry).

35. 17 U.S.C. §§ 902(a)(2), 914 (Supp. V 1987). Section 914 permits the issuance of interim orders by which nationals of foreign countries can register their designs in the United States if (a) their home country is making good faith efforts and reasonable progress toward enacting legislation or entering into a treaty which would provide protection to United States mask works; (b) the nationals of that country are not engaged in the copying of mask works; and (c) the purposes of the statute and international comity would be furthered by issuance of the order. Section 902(a)(2) provides for permanent protection for foreign mask works through the issuance of a Presidential Proclamation, based on a finding that the foreign nation extends to United States mask works protection on substantially the same basis as either the protection extended to domestic mask works, or the protection provided by the United States law. A foreign national can also qualify for reciprocal treatment under the SCPA by signing a treaty providing mask work protection to which the United States is a party. *Id.* § 902(a)(1)(a)(ii). To date, no such treaty exists.

36. Interim protection under section 914 of the SCPA has been granted to Australia, Belgium, Canada, Denmark, Finland, France, the Federal Republic of Germany, Greece, Ireland, Italy, Japan, Luxembourg, The Netherlands, Portugal, Spain, Sweden, Switzerland, and the United Kingdom. Austria has also recently applied to receive such protection.

the enactment of protection for semiconductor designs.

The "reciprocity" provisions of the SCPA warrant special attention because the SCPA's two-part approach actually combines both the traditional policy of the Copyright Law (in section 902) with a stricter form of reciprocity closer to the trade arena (in section 914).[37] Under section 902(a)(2), a provision modelled after the "national treatment" concept of the Copyright Act,[38] permanent reciprocity is available to nationals of a foreign country that provide nationals protection for United States nationals on "substantially the same basis as that . . . to mask works of its own nationals . . . or . . . on substantially the same basis as" the SCPA.[39] This language is interesting because, read literally, it would allow a foreign country to claim permanent reciprocity on the basis that it provides no protection either to its own nationals or to United States nationals.[40] Procedurally, the decision whether to issue a Presidential proclamation under section 902 only recently has been governed by any safeguards of hearings or public comment, a practice that also paralleled the ex parte nature of equivalent proceedings under the Copyright Act.[41]

By contrast, section 914 (which has no precedent in United States law) is both procedurally and substantively stronger than section 902(a)(2) in its reciprocity orientation. Although the ultimate standard for protection is the same as that under section 902(a)(2) (national treatment or protection substantially equivalent to that provided in the SCPA), additional trade-related requirements must also be met to obtain a section 914 order: (1) nationals of the foreign country must not be engaged in piracy of mask works; and (2) the purposes of the statute must be furthered.[42] Clearly, a country's failure to provide protection to both home country and foreign nationals would not further the purposes of the statute. The procedures employed in section 914 proceedings also

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37. For a detailed comparison of sections 902 and 914, see Stern, *The Semiconductor Chip Protection Act of 1984: The International Comity of Industrial Property Rights*, 3 INT'L TAX & BUS. LAW. 273-310 (1986).

38. *See* 17 U.S.C. § 104(b)(4) (1982).

39. 17 U.S.C. § 902(a)(2) (Supp. V 1987).

40. *See* Stern, *supra* note 37, at 292-95. Stern points out that such an interpretation would be totally inconsistent with the legislative history and while the Japanese industry and the Canadian Government have advanced such an interpretation, the Patent and Trademark Office (PTO) has not adopted such an interpretation.

41. *See id.* at 299-300. The absence of regulations governing the issuance of a Presidential Proclamation became an issue in the 1987 legislative extension of the authority to issue interim protection under section 914. The PTO has now issued regulations that allow for public comment and a public hearing.

42. 17 U.S.C. § 914 (Supp. V 1987).

ensure sufficient transparency and participation by United States industry to ensure that the purpose of the SCPA is unlikely to be thwarted by a literal reading of the statute to require only "national treatment," however poor.

One interesting issue that has arisen recently under the SCPA highlights the merger of intellectual property and trade issues and the dilemma faced by the United States in reconciling its policies in these two areas. The Patent and Trademark Office is currently evaluating whether Presidential proclamations extending permanent protection to mask works of Japan and Sweden should be issued. Both the American Electronics Association (AEA) and the United States Semiconductor Industry Association (SIA) have opposed the issuance of such a proclamation with respect to Japan. AEA's opposition is based on a "pure" intellectual property argument: Japan in fact fails to provide adequate protection not only for semiconductors, but also for other products. SIA's argument, however, squarely confronts the question of the extent to which trade and intellectual property rights should be linked in formulating United States policy. SIA contends that the United States derives little value from any intellectual property protection Japan grants because Japan fails to provide access to its market for United States semiconductors. The United States Government's acceptance or rejection of this argument should provide some interesting insights into United States willingness to take an official position in support of the linkage of trade and intellectual property issues outside of areas in which such linkages have been legislatively mandated, for example, under section 301.

Given the level of success that the SCPA already has achieved in stimulating the enactment of chip protection laws abroad, the question arises as to why the United States should seek a treaty? A good case can be made that the reciprocity provisions in United States law have provided a sufficient incentive for other countries to enact their own laws. Moreover, the procedures under United States law allow for a careful review of the actual legislation and regulations of other countries before reciprocity is granted. By contrast, most intellectual property treaties do not provide an effective means to look behind a country's signature on the treaty document to assess how scrupulously it is carrying out its obligations. This, of course, is one of the United States major concerns in the new GATT Round and explains its insistence on better consultation and dispute settlement procedures to be applicable generally to intellectual property rights.

The best case for a treaty must be based upon the need to carry the message beyond the countries that already share the United States position with regard to the importance of protecting the intellectual invest-

ment in semiconductor designs; in most cases, this means developing countries like South Korea, Brazil, India, Taiwan, Singapore, and China. While only one of these countries (South Korea) has a world-class semiconductor industry, the others certainly have the potential to develop one over the next ten years as their markets for semiconductors and products incorporating semiconductors develop. Therefore, it is important that they recognize the relationship between the protection of intellectual property rights and the development of their own industries.

For this reason, the United States has actively supported the interest of WIPO in developing a treaty. And WIPO has been impressively agile in taking up the task and moving the process forward. In a little over two years, the WIPO Secretariat has brought together experts from all over the world and prepared a draft treaty that is ready to be presented to a diplomatic conference. The United States offer to host such a conference was accepted in September 1988 by the WIPO Governing Council, and the conference was scheduled to be held in May 1989 in Washington.

The draft treaty as it now stands embodies a set of minimum standards that track the provisions of United States law fairly closely. The coverage of the treaty (provided that discrete semiconductors are included) is consistent with coverage under United States law, as are the provisions for exclusive rights, exceptions for innocent infringement and reverse engineering, and the duration of protection. The treaty would allow a country to protect mask works under either its copyright law or a sui generis law like those enacted in the United States and Japan.

The real problem with the treaty is that it really does not go far enough; in this respect it runs the risk of falling into the same rut in which a number of other intellectual property rights treaties currently find themselves. Regrettably absent from the treaty are any provisions governing the private enforcement of rights, including the availability of injunctions, damages, and other remedial measures. Although this absence is typical of WIPO treaties, it nevertheless leaves a vacuum in an area critical to the practical side of ensuring protection. Equally important from a practical standpoint is the fact that the treaty does not provide a mechanism for mutual recognition of registrations, where registration is required.

The biggest threat posed by the treaty is that it would allow a signatory country to provide a level of protection that is totally inadequate but arguably consistent with the treaty. The problem is twofold. First, the language of the treaty is unavoidably general, leaving much to the interpretation of national law. Unfortunately, some countries are simply hostile to the protection of mask work rights, as they are to the protection of

other forms of intellectual property rights. These countries are arguing for the inclusion of provisions that would allow compulsory licensing or special exceptions for developing countries that effectively would eliminate protection. One would have to include many of the developing countries that we are trying to draw into the system of protection required by the treaty in this camp.

An example will illustrate this problem. A provision has been added that explicitly allows countries to enforce any law dealing with the abuse of monopoly power. If one draws the inference that the mere granting of mask work protection accords monopoly, as implied by the inclusion of such language, one can easily make the case for compulsory licensing provisions administered by the government office overseeing such rights.

In the context of the chip treaty, this concession is all the more painful because the treaty already includes provisions that strike a particularly careful balance between the rights of the creator and the interests of the public. For one, protection is limited to ten years. Even more important, the treaty protects the rights of reverse engineers and innocent infringers. Given the competitiveness of the world-wide semiconductor market and the limitations on exclusive rights inherent in these exceptions, it is difficult to see what monopoly power flows from the granting of exclusive rights in semiconductor designs. In short, there is simply no basis for allowing, explicitly or implicitly, exceptions for compulsory licensing.

Compounding the problem is a lack of treaty measures to protect against abuses of this provision. Although the current draft of the treaty contains provisions for consultation and dispute settlement, they have not yet been accepted. Moreover, WIPO is now considering adopting an independent treaty on dispute settlement that would govern all of the other treaties administered by WIPO—and which contains no enforcement mechanisms. If a WIPO semiconductor treaty continues the WIPO tradition of lack of dispute settlement procedures, each country can essentially interpret the treaty for itself. If experience with other treaties is any example, this means that even if one starts with a fairly good set of standards, there is a real risk that the protection accorded United States rights in other countries will be eroded over time.

In the face of such a prospect, what option does the United States have? First, it could grin and bear it, trying to shore up compliance through diplomatic initiatives. Or, in the extreme, the United States Government could take the offender to the International Court of Justice. Finally, the United States could withdraw from the treaty. In today's world, none of these is a particularly desirable or realistic option.

The logical conclusion that seems to emerge from this analysis is that there is no viable alternative to a United States position that makes clear

both internally and to our negotiating partners that a treaty is in the United States interest only within certain parameters. International organizations like WIPO have the advantage of drawing together many of the countries we would seek to influence to adopt better protection of intellectual property rights, but not without some risk. The risk is that in the pursuit of an international consensus, we may embrace a set of standards that—in principle or in practice—are not worth having. Equally important is a workable enforcement mechanism that would form an integral part of the treaty. Such a mechanism should be designed to prevent the erosion of protection over time and should be capable of looking beyond a country's signature on a treaty document into the signatory's national law and practice.

The implications of these developments for United States efforts in the GATT are obvious. The positions the United States has taken in WIPO and will take at the diplomatic conference on semiconductor designs will be an important signal to our negotiating partners in GATT. If the United States repeats the mistakes of the past in negotiating a treaty that compromises basic standards of protection and fails to include adequate provisions for enforcement and dispute settlement, it will be announcing to the world that nothing fundamental has changed in United States policy toward intellectual property rights. A semiconductor treaty could well look good in the context of other WIPO treaties, but still fall far short of the ambitious objectives of the United States Government in the new GATT Round.

IV. CONCLUSION

This review of United States policy initiatives reveals that the relationship of intellectual property rights and international trade is more like a two career-marriage than a merger. At the international level, the two domains will remain separate but will inevitably have a much greater degree of mutual interaction than was previously the case. By contrast, at the level of United States policy, there is very likely to be a much closer coordination as the United States moves toward a sharper focus on coordinated measures to improve the competitiveness of the United States economy.

There are a number of obstacles that United States policyholders will encounter in achieving such coordination, however. Chief among these is the division of authority within the United States Government on both intellectual property rights and trade issues—let alone areas where these two domains intersect—that makes it difficult to identify a clear focus of responsibility for ensuring world-wide protection of intellectual property rights. Semiconductors provide a dramatic illustration of this difficulty. A

number of agencies are involved in chip protection issues: the Copyright Office has headed the United States delegation to the WIPO working groups; the State Department will host the WIPO conference in May; and the Patent and Trademark Office has overseen the administration of the reciprocity provisions of the SCPA. The Office of the USTR, meanwhile, handles GATT negotiations on intellectual property but has not been involved in any of these other chip protection issues. United States industry has spent considerable time in section 914 proceedings educating the Patent and Trademark Office on the issues and problems related to semiconductor chip protection, only to find different agencies handling these issues in the international arena. Clearly, better coordination of policy efforts is needed.

In sum, the following conclusions seem to flow from the preceding discussion:

(1) What the United States does in WIPO, half a mile down the road from GATT and involving many of the same countries, will have profound implications for what we will be able to achieve in GATT with regard to minimum standards, enforcement, and other critical issues. As of yet, too little thought or planning has been devoted to ensuring that United States strategy takes into account the interactions between the SCPA, WIPO, and GATT.

(2) The lack of a clear, focused United States strategy predicated on the use of all of the policy tools available to advance the interests of United States firms in obtaining global protection is a serious hindrance to the achievement of United States objectives in this critical area.

(3) And the SCPA in particular, with its emphasis on reciprocity, provides a useful model for efforts to protect new forms of technology.