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The Inconsistency Between Section 301 and TRIPS: Counterproductive With Respect to the Future of International Protection of Intellectual Property Rights?

I. INTRODUCTION

This comment will examine the inconsistency between continued international efforts to ensure uniform protection of intellectual property rights, most recently via the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS),¹ requiring adherence to the most favored nation principle,² on the one hand; and the use of unilateral measures by the United States, specifically Section 301 of the Trade Act of 1974,³ to ensure greater protection for United States' intellectual property rights, on the other. Despite the inconsistency and fierce opposition from trading partners, the United States continues both to use and to threaten to use Section 301 measures against countries that are deemed to provide inadequate protection for U.S. intellectual property rights. This practice is particularly apparent in connection with gray market goods, which demonstrates that countries would rather abandon their policies and agree to unilaterally negotiate with the United States – even when their current policies might very well be in perfect compliance with TRIPS – than risk being black-listed by the United States via Section 301 measures.⁴ As a result, this comment predicts that the measures employed by the United States are detrimental to the long term goals of international protection of intellectual property and, unless altered, will continue to create animosity from those trading partners that do not engage in such practices, as well as from those that are forced into such negotiations.

1. Agreement on Trade-Related Aspects of Intellectual Property Rights [hereinafter TRIPS], Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, LEGAL INSTRUMENTS – RESULTS OF THE URUGUAY ROUND vol. 31, 33 I.L.M. 81 (1994).

2. *Id.* art. 4. It should be noted that the TRIPS agreement itself uses the English spelling and thus refers to the principle as “Most Favoured Nation.” For purpose of consistency, because this comment uses American spellings, this principle will be referred to as the “Most Favored Nation.” See *infra* notes 58-59 and accompanying text.

3. Trade Act of 1974, Pub. L. No. 93-618, 301-02, 88 Stat. 1978, 2041-43 (1975) (codified as amended in scattered sections of 19 U.S.C. (2005)). See discussion *infra* part III.

4. See discussion *infra* part IV.

This comment proceeds as follows. Part II discusses the historical development of international protection of intellectual property rights, specifically focusing on the Paris Convention for the Protection of Industrial Property (Paris Convention),⁵ the Berne Convention for the Protection of Literary and Artistic Property (Berne Convention),⁶ the World Intellectual Property Organization (WIPO),⁷ and TRIPS.⁸ Part III outlines the development of Section 301, examines how the United States has used and continues to use it, and argues that the effects of its current use are undesirable and inconsistent with WTO obligations.⁹ Part IV first concentrates on the specific question of gray market goods and then uses the United States' use of Section 301 in this realm to further illustrate the detrimental effects of Section 301.¹⁰ Part V concludes that as the most powerful member of the World Trade Organization (WTO),¹¹ in the best interest of the world trading community as whole, the United States would be wise to reconsider its use of Section 301.

II. THE ROAD TO INTERNATIONAL PROTECTION OF INTELLECTUAL PROPERTY RIGHTS AND THE WTO

A. Paris Convention

The Paris Convention originally signed on March 20, 1883, is an international agreement whose purpose is to protect intellectual

5. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, as last revised at Stockholm July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305 [hereinafter Paris Convention]. See discussion *infra* part II.A.

6. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, as last revised at Paris July 24, 1971, 25 U.S.T. 1341, 828 U.N.T.S. 221 [hereinafter Berne Convention]. See discussion *infra* part II.B.

7. See Convention Establishing the World Intellectual Property Organization, July 14, 1967, 21 U.S.T. 1749, 828 U.N.T.S. 3 [hereinafter WIPO Convention]. See discussion *infra* part II.C.

8. See TRIPS, *supra* note 1. See discussion *infra* part II.D.

9. See discussion *infra* part III.

10. See discussion *infra* part IV.

11. See 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 Final Act]; General Agreement on Tariffs and Trade – Multilateral Trade Negotiations (the Uruguay Round): Agreement Establishing the Multilateral Trade Organization [World Trade Organization], Apr. 15, 1994, LEGAL INSTRUMENTS – RESULTS OF THE URUGUAY ROUND vol. 31, 33 I.L.M. 13 (1994) [hereinafter WTO Agreement].

property rights.¹² The Paris Convention, which has been revised on numerous occasions since it was first signed,¹³ is one of the first international agreements of its kind.¹⁴ Specifically, it protects patents, utility models, industrial designs or models, trademarks, service marks, trade names, indications of source or appellations of origin, and aims to repress unfair competition.¹⁵ Its main goal is to eliminate discrimination of foreigners on the national level, which may have occurred for political or other reasons.¹⁶ To this end, the Paris Convention maintains that member nations are to adhere to a standard of “national treatment,” which requires a nation to afford foreign owners of intellectual property rights the same rights and protections it does to its own nationals.¹⁷ The

12. Paris Convention, *supra* note 5. In 1883, when the Convention first was first opened for signature, it was adopted by Belgium, Brazil, France, Guatemala, Italy, the Netherlands, Portugal, Salvador, Serbia, Spain, and Switzerland. The United States became a signatory in 1887, and Congress implemented the language of the Convention into domestic law in 1903. The Convention's effect was also maintained in Section 119 of the Patent Act of 1952. *See* 4A DONALD S. CHISUM, CHISUM ON PATENTS § 14.02(1)(a) (2004). *See also* 35 U.S.C. § 119.

13. Following the original version of the Convention, new revisions were adopted as follows: In Brussels in 1900, in Washington in 1911, in The Hague in 1925, in London in 1934, in Lisbon in 1958, and in Stockholm in 1967. *See* 4A CHISUM, *supra* note 12, § 14.02(1)(a)-(g).

14. Laurinda L. Hicks & James R. Holbein, *Convergence of National Intellectual Property Norms in International Trading Agreements*, 12 AM. U.J. INT'L L. & POL'Y 769, 778-79 (1997). The current text of the Convention is the 1967 revision, which the United States ratified in 1973. 4A CHISUM, *supra* note 12, § 14.02(1)(g). As of January of 2005, the Paris Convention has 169 signatories. For a complete list of member nations see http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=2 (last visited Jan. 8, 2005).

15. Paris Convention, *supra* note 5, art. 1(2); JOHN H. JACKSON, WILLIAM J. DAVEY & ALAN O. SYKES, JR., *LEGAL PROBLEMS OF INTERNATIONAL ECONOMIC RELATIONS: CASES, MATERIALS AND TEXT ON THE NATIONAL AND INTERNATIONAL REGULATION OF TRANSNATIONAL ECONOMIC RELATIONS* 961 (4th ed. 2002).

16. *See* Hicks, *supra* note 14, at 778-79; Michael A. Ugolini, *Gray-Market Goods Under the Agreement on Trade-Related Aspects of Intellectual Property Rights*, 12 TRANSNAT'L LAW. 451, 454 (1999).

17. *See* Paris Convention, *supra* note 5, art. 2. The Paris Convention spells out the national Treatment Standard as follows:

(1) Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by this Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with.

(2) However, no requirement as to domicile or establishment in the country where protection is claimed may be imposed upon nationals of countries of the Union for the enjoyment of any industrial property rights.

individual countries are, in other words, responsible for implementing the Paris Convention's provisions into their own laws. The national treatment requirement has, however, been criticized, because if a country does not provide intellectual property protection for its citizens, the Paris Convention does not require that it do so for foreign citizens either.¹⁸ Another major weakness of the Paris Convention is that it does not provide specific measures for the enforcement of the intellectual property rights and there are likewise no provisions for the settlement of disputes between member nations, should they arise.¹⁹

B. Berne Convention

In addition to the Paris Convention, the Berne Convention, first signed on September 9, 1886, is another important, longstanding international agreement for the protection of intellectual property rights.²⁰ The Berne Convention is the first and most important multilateral treaty specific to copyright, and its purpose is "the protection of the rights of authors in their literary and artistic works."²¹ The Berne Convention has two main principles: the concept that the member nations form a "Union," and, like the Paris Convention, the requirement of national treatment.²² This means that members of the

(3) The provisions of the laws of each of the countries of the Union relating to judicial and administrative procedure and to jurisdiction, and to the designation of an address for service or the appointment of an agent, which may be required by the laws on industrial property are expressly reserved.

Id. See Hicks, *supra* note 14, at 779. For an in-depth discussion of the national treatment standard see also JACKSON ET AL., *supra* note 15, at 479-531.

18. Hicks, *supra* note 14, at 779.

19. *Id.*

20. Berne Convention, *supra* note 6. See 1 INTERNATIONAL COPYRIGHT LAW & PRACTICE § 3[3][b] (Melville B. Nimmer & Paul Edward Gellar, eds., 2004); Hicks, *supra* note 14, at 780. In 1886, the convention was signed by Belgium, France, Germany, Haiti, Italy, Liberia, Spain, Switzerland, Tunisia, and the United Kingdom, though Liberia ultimately failed to ratify it. The current version was adopted in 1971. The United States joined the Berne Union in 1989 via the Berne Convention Implementation Act of 1988. 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 17.01[B][1], n.10 (2004); 17 U.S.C. § 101. As of January of 2005, the union has 157 member nations. For a complete list of members nations see http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=15 (last visited Jan. 8, 2005).

21. Berne Convention, *supra* note 6, art. 1.

22. *Id.* arts. 1, 5. The national treatment standard is phrased as follows:

Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.

Union agree to treat copyrights of foreigners who are citizens of a member country the way they would the copyrights of their own citizens.²³ The Berne Convention, hence, presents a framework with which the domestic laws of member nations must comply.²⁴ Like the Paris Convention, the Berne Convention has also been revised several times²⁵ and currently provides the “highest recognized standard of copyright protection among copyright treaties.”²⁶ Similar to the Paris Convention, the Berne Convention also does not include provisions regarding the enforcement of copyrights or regarding the settlement of disputes, both of which weaken its effectiveness.²⁷

C. WIPO and Its Inadequacies

WIPO is an intergovernmental organization that was established in 1970 by the Convention Establishing the World Intellectual Property Organization (WIPO Convention), which opened for signature on July 14, 1967.²⁸ In 1974, WIPO became a specialized agency of the United Nations.²⁹ The organization’s general role is to “promote the development of measures designed to facilitate the efficient protection of intellectual property throughout the world and to harmonize national

Id. art. 5(1). See Hicks, *supra* note 14, at 780; see also Graeme B. Dinwoodie, *A New Copyright Order: Why National Courts Should Create Global Norms*, 149 U. PA. L. REV. 469, 490-94 (2000) (discussing the Berne Convention as what the author refers to as “the classical model” of international copyright protection, as contrasted with the later “new model” of TRIPS).

23. 1 INTERNATIONAL COPYRIGHT LAW AND PRACTICE § 3[1][a][i]. See Hicks, *supra* note 14, at 780.

24. 1 INTERNATIONAL COPYRIGHT LAW AND PRACTICE § 3[1][a][i]. See Alexander A. Caviedes, *International Copyright Law: Should the European Union Dictate its Development?*, 16 B.U. INT’L L.J. 165, 171-72 (1998).

25. Following its initial implementation in Berne in 1886, new versions of the Berne Convention have been adopted as follows: In Paris in 1896, in Berlin in 1908, in Berne in 1914, in Rome in 1928, in Brussels in 1948, in Stockholm in 1967, and in Paris in 1971. The Stockholm revision, however, was not ratified by a sufficient number of members. See 4 NIMMER ON COPYRIGHT § 17.01[B][1], n.12.

26. Hicks, *supra* note 14, at 780-81.

27. *Id.* at 780.

28. WIPO Convention, *supra* note 7. As of January 2005, WIPO has 182 members. For a complete list of member nations see, http://www.wipo.int/treaties/en/ShowResults.jsp?lang=en&treaty_id=1 (last visited Jan. 8, 2005).

29. WIPO: General Information, http://www.wipo.int/about-wipo/en/gib.htm#P29_4637 (last visited Jan. 8, 2005). See JACKSON ET AL., *supra* note 15, at 96; Hicks, *supra* note 14, at 781.

legislation.”³⁰ To this end, WIPO administers twenty-three different unions and treaties, including both the Paris and Berne Conventions.³¹

International intellectual property laws were relatively unaffected by political and other similar controversies during the greater part of the twentieth century.³² This is true despite the fact that some of the treaties that WIPO administers have been in effect for more than a hundred years. This began to change in the mid 1980s. By this time the United States’ technology exports had increased significantly, and because the intellectual property of technology is far more valuable than traditional indicators such as raw materials, adequate protection for intellectual property became crucial.³³ In spite of the existing treaties and WIPO’s efforts to promote more uniform international standards for intellectual

30. WIPO Convention, *supra* note 7, art. 4(i). WIPO’s general vision is “to promote the protection of intellectual property throughout the world through cooperation among States” and “to ensure administrative cooperation among the Unions.” *Id.* art 3. More generally, according to the organization’s Web site, its role is simply to “promot[e] the use and protection of works of the human spirit.” WIPO, <http://www.wipo.int/aboutwipo/en/index.html>

?wipo_content_frame=/about-wipo/en/gib.htm (last visited Jan. 8, 2005).

31. WIPO Convention, *supra* note 7, art. 4(ii); WIPO: Treaties and Contracting Parties, available at <http://www.wipo.int/treaties/en/> (last visited Jan. 8, 2005). In addition to the WIPO Convention itself, and the Paris and Berne Conventions, WIPO also administers the following conventions: Brussels Convention Relating to the Distribution of Programme-Carrying Signals Transmitted by Satellite of 1974; Treaty on the International Registration of Audiovisual Works of 1989; Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods of 1891, as amended; Nairobi Treaty on the Protection of the Olympic Symbol of 1981; Patent Law Treaty of 2000; Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms of 1971; International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations of 1961; Trademark Law Treaty of 1994; Washington Treaty on Intellectual Property in Respect of Integrated Circuits of 1989; WIPO Copyright Treaty of 1996; WIPO Performances and Phonograms Treaty of 1996; Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure of 1977, as amended; Hague Agreement Concerning the International Deposit of Industrial Designs of 1934, as amended; Lisbon Agreement for the Protection of Appellations of Origin and their International Registration of 1958, as amended; Madrid Agreement Concerning the International Registration of Marks of 1891, as amended; Patent Cooperation Treaty of 1971 as amended; Locarno Agreement Establishing an International Classification for Industrial Designs of 1968, as amended; Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks of 1957, as amended; Strasbourg Agreement Concerning the International Patent Classification of 1971, as amended; and Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks of 1973, as amended. *Id.*

32. Marney L. Cheek, *The Limits of Informal Regulatory Cooperation in International Affairs: A Review of the Global Intellectual Property Regime*, 33 GEO. WASH. INT’L L. REV. 277, 284 (2001).

33. *Id.* at 284-85.

property rights by encouraging cooperation among nations, by the mid-1980s the level of uniformity remained limited, and the national treatment standard in particular frequently led to very little protection in a foreign country.³⁴ The WIPO conventions were criticized for being overly ambiguous and too general to be able to demand adequate protection.³⁵ The conventions were also attacked for having incomplete membership: many newly industrialized countries and influential developing countries were not members at all.³⁶ Additionally, because developing countries have a majority in the WIPO voting system they are a major reason for the lack of revision of the conventions: proposals for stricter standards can easily be defeated by developing countries that prefer the standards to be even lower.³⁷ WIPO was also further criticized, particularly by the United States, for its lack of power to discipline and impose sanctions for non-compliance, as well as for its lack of a dispute settlement mechanism.³⁸ Especially WIPO's failed attempt to revise the Paris Convention in the early 1980s led to an unwillingness by many countries to continue to view the institution as a viable forum for improvements.³⁹ As a result of the continued globalization of the economy, fearing substantial losses of valuable assets to developing countries due to their lack of protection of intellectual property rights, the industrialized countries sought a new mechanism for the protection of such rights.⁴⁰ These countries, particularly the United States began to encourage the inclusion of protection of intellectual property rights in multilateral trade negotiations.⁴¹ In the early 1990s, hoping to secure uniform minimum standards for the protection of intellectual property through the

34. Hicks, *supra* note 14, at 782; Cheek, *supra* note 32, at 284.

35. Hicks, *supra* note 14, at 782.

36. JACKSON ET AL., *supra* note 15, at 961.

37. Caviedes, *supra* note 24, at 177.

38. JACKSON ET AL., *supra* note 15, at 961-62; Caviedes, *supra* note 24, at 177-78; Hicks, *supra* note 14, at 782.

39. Cheek, *supra* note 32, at 287. In a summary from its 1985 Annual Meeting the American Bar Association stated that: "The attempt to revise the Paris Convention . . . [in] the Fourth Session of the Diplomatic Conference was held in early 1984, but agreement was not possible on the major issues. A Fifth Session will not be convened until prospects for positive results appear more likely." 1985 ABA Sec. Patent, Trademark & Copyright Law Proc. 53, Summary of Proceedings of the Annual Meeting, Washington, D.C. Jul. 9, 1985.

40. Caviedes, *supra* note 24, at 177.

41. JACKSON ET AL., *supra* note 15, at 961-62; Hicks, *supra* note 14, at 782.

General Agreement of Tariffs and Trade (GATT),⁴² the industrialized countries turned to the Uruguay Round.⁴³

D. WTO and TRIPS

The conclusion of GATT's Uruguay Round in 1994 marked the beginning of a new era in the international protection of intellectual property.⁴⁴ The Uruguay Round agreements founded the WTO, thereby replacing GATT.⁴⁵ One of the agreements entered into by the members of the WTO is the TRIPS agreement,⁴⁶ which can rightfully be deemed "the most significant advance in the international protection of intellectual property since the Berne and Paris Conventions."⁴⁷ The international regulation of intellectual property rights thereby effectively shifted from public law to trade law.⁴⁸ The agreement's significance is three-fold.

First, the agreement covers the most important forms of intellectual property, including copyrights and related rights, trademarks and service marks, geographical indications, industrial designs, patents, layout designs of integrated circuits, and undisclosed information, and establishes minimum standards of intellectual property protection.⁴⁹ It does so by requiring members to adhere to the substantive provisions of the major multilateral intellectual property treaties, including the Paris and Berne Conventions.⁵⁰

42. See General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. A-11, T.I.A.S. 1700, 55 U.N.T.S. 194 [hereinafter GATT].

The GATT Agreement was originally signed in 1948 by a significant number of the world's countries which were interested in improving trade relations and efficiencies after the shattered relationship of World War II. The GATT involvement in the intellectual property arena was political. Knowing the weaknesses of the Paris Convention, the member countries debated whether the GATT was the proper tool to enforce [intellectual property] rights during the 1970s and 1980s. . . . [Intellectual property] enforcement became a focal point of the most recent and probably most significant revision to the GATT Agreement, the Uruguay Round

MARY M. SQUYRES, *TRADEMARK PRACTICE THROUGHOUT THE WORLD*, § 7.1 (2003).

43. JACKSON ET AL., *supra* note 15, at 961-62; Cheek, *supra* note 32, at 287.

44. Hicks, *supra* note 14, at 782.

45. *Id.* See Final Act, *supra* note 11; WTO Agreement, *supra* note 11.

46. TRIPS, *supra* note 1.

47. Hicks, *supra* note 14, at 783.

48. See TRIPS, *supra* note 1; Susan Vastano Vaughan, Note, *Compulsory Licensing of Pharmaceuticals Under TRIPS: What Standard of Compensation?*, 25 HASTINGS INT'L & COMP. L. REV. 87, 93 (2001).

49. TRIPS, *supra* note 1, arts. 9-40.

50. Ugolini, *supra* note 16, at 454. See TRIPS, *supra* note 1. But cf. J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection under the TRIPS*

Second, TRIPS establishes standards for enforcement by incorporating domestic procedures and remedies to ensure protection of intellectual property rights.⁵¹ Indeed, the WTO members must guarantee that the enforcement procedures that TRIPS specifies are, in fact, available under their own laws.⁵² Such procedures include the ability to bring an action for “remedies to prevent infringements and remedies which constitute a deterrent to further infringements.”⁵³ The procedures must also “avoid the creation of barriers to legitimate trade,”⁵⁴ and be “fair and equitable” and may not be “unnecessarily complicated or costly.”⁵⁵ In addition, TRIPS also states that domestic judicial authorities must “have the authority to order the infringer to pay . . . damages,” including attorney’s fees, and “the authority to order . . . provisional measures to prevent . . . infringement.”⁵⁶

Third, the agreement also has a binding, enforceable dispute settlement mechanism. As part of the Uruguay Round the WTO members also signed the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU), which establishes a mechanism to enforce the rights guaranteed by TRIPS and summarizes the rules and procedures of dispute settlement.⁵⁷ The DSU guarantees that the WTO oversees the implementation of the agreement, and the Council for the Trade-Related Aspects of Intellectual Property Rights (TRIPS Council), which operates under the WTO’s General Council,

Component of the WTO Agreement, 29 INT’L LAW., 345, 347 (1995) (stating that “the TRIPS Agreement mandates mostly time-tested, basic norms of international intellectual property law as enshrined in the Paris . . . and the Berne Convention[s]” but that “[i]t also leaves notable gaps and loopholes that will offset some of the gains accruing from the exercise”); J.H. Reichman, *The Know-How Gap in the TRIPS Agreement: Why Software Fared Badly, and What Are the Solutions*, 17 HASTINGS COMM. & ENT. L.J. 763, 765-66 (arguing “that both the strengths and weaknesses of the TRIPS Agreement stem from its essentially backwards-looking character,” and contending that though it is a strength that TRIPS builds on the Paris and Berne Conventions, and “embodies . . . legal norms that gained acceptance in developed legal systems,” a weakness is “the drafters technical inability and political reluctance to address the problems facing innovators and investors at work on important new technologies”).

51. TRIPS, *supra* note 1, art. 41(1).

52. Ugolini, *supra* note 16, at 455.

53. TRIPS, *supra* note 1, art. 41(1).

54. *Id.*

55. *Id.* art. 41(2).

56. *Id.* arts. 45(1), 45(2), 50(1)(a).

57. See Understanding on Rules and Procedures Governing the Settlement of Disputes [hereinafter DSU], Apr. 15 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, LEGAL INSTRUMENTS – RESULTS OF THE URUGUAY ROUND vol. 31, 33 I.L.M. 112 (1994).

monitors the implementation of and compliance with TRIPS.⁵⁸ The General Council has the responsibility to settle disputes among WTO members that involve TRIPS, which means that intellectual property disputes are settled via a system comparable to that of the rest of the WTO as a whole.⁵⁹

To aid the enforcement of the uniform standards, the national treatment standard is carried over to TRIPS as the agreement explicitly states: "treatment no less favourable than it accords to its own nationals."⁶⁰ In addition, for the first time in a multilateral intellectual property agreement, TRIPS also contains a Most-Favored Nation clause, which states that "any advantage, favour, privilege or immunity granted by a Member to the nationals of any other country shall be accorded immediately and unconditionally to the nationals of all other Members."⁶¹ As contrasted with the national treatment standard, this means that any advantage a member gives to the nationals of one WTO member country must be extended to the nationals of all other WTO

58. See TRIPS, *supra* note 1, art. 68.

The Council for [TRIPS] shall monitor the operation of this Agreement and, in particular, Members' compliance with their obligations hereunder, and shall afford Members the opportunity of consulting on matters relating to the trade-related aspects of intellectual property rights. It shall carry out such other responsibilities as assigned to it by the Members, and it shall, in particular, provide any assistance requested by them in the context of dispute settlement procedures. In carrying out its functions, the Council may consult with and seek information from any source it deems appropriate. . . .

Id. See JACKSON ET AL., *supra* note 15, at 968; Hicks, *supra* note 14, at 783.

59. Hicks, *supra* note 14, at 783. See also JACKSON ET AL., *supra* note 15, at 246-337, 964-65, 968 (for an extensive discussion on the WTO dispute settlement mechanism).

60. TRIPS, *supra* note 1, art. 3(1); JACKSON ET AL., *supra* note 15, at 965.

61. TRIPS, *supra* note 1, art. 4. See JACKSON ET AL., *supra* note 15, at 415-46 (for a detailed discussion on the most-favored nation standard). As evidenced by the following statements by the Senate Committee on Finance from 1974, the importance of the Most-Favored-Nation Clause in the TRIPS Agreement can hardly be underestimated:

The unconditional most-favored-nation (MFN) provision is the cornerstone of the international trade rules embodied in the General Agreement on Tariffs and Trade (GATT). The basic rationale for MFN is that if every country observes the principle, all countries will benefit in the long run through the resulting more efficient use of resources. Furthermore, if the principle is observed, there is less likelihood of trade disputes.

Executive Branch GATT Studies, No. 9, The Most-Favored-Nation Provision, at 133, Subcomm. on International Trade, Senate Comm. on Finance, 93rd Cong., 2d Sess. (Compilation of 1973 studies prepared by the Executive Branch: Comm. Print 1974), *quoted in* JACKSON ET AL., *supra* note 15, at 415 (internal quotations omitted).

members, even if that means treating the nationals of other countries more favorably than its own nationals.⁶²

Among the most significant advantages of TRIPS over WIPO is that under TRIPS accession is not voluntary, thereby committing all signatories to the minimum standards.⁶³ In 1995, “[d]esiring to establish a mutually supportive relationship . . . and with a view to establishing appropriate arrangements for cooperation,” WIPO also entered into an agreement with WTO, which became effective on January 1, 1996.⁶⁴ The result is that for the first time virtually all countries of the world are bound by a legal obligation to harmonize and strengthen their intellectual property laws and to enforce them.⁶⁵

III. SECTION 301 OF THE TRADE ACT OF 1974 AND ITS USE AS A MEAN TO UNILATERALLY PROTECT UNITED STATES INTELLECTUAL PROPERTY INTERESTS

A. Background

Prior to TRIPS, there existed a great fear among industrialized nations that they would suffer significant losses due to the failure of developing countries to protect intellectual property rights.⁶⁶ The

62. JACKSON ET AL., *supra* note 15, at 965. “Most-favored-nation treatment obligates a W.T.O. member to grant all other W.T.O. members advantages that it grants to at least one W.T.O. member.” 1 INTERNATIONAL COPYRIGHT LAW AND PRACTICE § 5[4][a][ii].

Perhaps the most important “basic principle” that applies virtually across the board is that of *national treatment* of . . . foreign rights holders. This principle of equal treatment under the domestic laws is then carried over to relations between states in the most-favored-nation (MFN) provisions. . . . The latter article ostensibly prevents one member country from offering a better intellectual property deal than is required by international law to nationals of a second member country and then denying similar advantages to the nationals of other member countries. . . .

Id. In practice, however, certain express limitations could diminish the effectiveness of these basic requirements.

Reichman, *Universal Minimum Standards of Intellectual Property Protection under the TRIPS Component of the WTO Agreement*, *supra* note 50, at 347-48 (internal citations omitted).

63. Cheek, *supra* note 32, at 284-88.

64. Agreement between the World Intellectual Property Organization and the World Trade Organization, Dec. 22, 1995, IP/C/6, available at http://www.wto.org/english/tratop_e/trips_e/wtowip_e.htm (last visited Jan. 11, 2005). See also SQUYRES, *supra* note 42, § 7.1 (2003); WIPO: General Information, <http://www.wipo.int/about-wipo/en/gib.htm> (last visited Jan. 8, 2005).

65. JACKSON ET AL., *supra* note 15, at 964. Currently, the WTO has 148 members and 31 observers. For a complete list of all members and observers see, http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (last visited Jan. 8, 2005).

66. Caviedes, *supra* note 24, at 179.

response by the United States was to take unilateral measures, enter into bilateral agreements, or both.⁶⁷ Although one might have expected the adoption of TRIPS to deter the United States from continuing to unilaterally pressure countries to increase the protection they afford to American intellectual property interests, this was not the case.⁶⁸ In fact, the United States began to pursue an aggressive foreign policy for minimum standards of protection for its intellectual property in the late 1980s, and has continued this practice ever since.⁶⁹

B. Original Section 301

Section 301⁷⁰ was originally enacted as part of the Trade Act of 1974,⁷¹ and had as its purpose to grant the President the power to take action against countries in response to trade complaints brought by private parties.⁷² The 1974 legislative history suggests that the act was created in response to Congress's dissatisfaction with GATT:

[T]he President ought to be able to act or threaten to act under section 301, whether or not such action would be entirely consistent with the General Agreement on Tariffs and Trade. . . . [T]he decision-making process under the General Agreement often frustrates the ability of the United States . . . to obtain the decisions needed to enable the United States to protect its rights and benefits under GATT. . . . [T]he Committee felt it was necessary to make it clear that the President could act to protect U.S. economic interests whether or not such action was consistent with the articles of an outmoded international agreement⁷³

Subsequent amendments in 1979⁷⁴ and 1984⁷⁵ provided timelines for investigations and for such investigations to be initiated by the United

67. *Id.*

68. Cheek, *supra* note 32, at 287.

69. *Id.* at 287-89.

70. See 19 U.S.C. § 2411.

71. Although, even before Congress enacted Section 301, similar provisions were included in Section 252 of the Trade Expansion Act of 1962, which allowed the President to address "unfair" trade practices abroad. See MICHAEL K. YOUNG, UNITED STATES TRADE LAW AND POLICY 90 (2001).

72. See 19 U.S.C. § 2411; YOUNG, *supra* note 71, at 90; see also JACKSON ET AL., *supra* note 15, at 317-19, 332-35.

73. S. REP. NO. 93-1298, at 166 (1974), reprinted in 1974 U.S.C.C.A.N. 7186, 7304.

74. Trade Agreements Act of 1979, Pub. L. No. 96-39, 93 Stat. 144, 295 (codified as amended in scattered sections of 19 U.S.C.).

75. Trade and Tariff Act of 1984, Pub. L. No. 98-573, 98 Stat. 2948, 3002 (codified as amended in scattered sections of 19 U.S.C.).

States Trade Representative (USTR) rather than by the President.⁷⁶ The Omnibus Trade and Competitiveness Act of 1988⁷⁷ further amended Section 301 of the Trade Act of 1974 by transferring all the authority regarding Section 301 investigations of private party complaints and enforcement from the President to the USTR.⁷⁸ In essence, although Section 301 started out as a forum in which private parties could bring an action to the USTR for investigation, at the moment “it appears that a party filing a section 301 petition does not have a cause of action for judicial review if the USTR does not initiate the requested investigation.”⁷⁹

The current version of Section 301 states that when a trade agreement is violated action is mandatory.⁸⁰ Action is merely discretionary if the USTR determines that a country’s acts or policies are “unreasonable or discriminatory and burden[] or restrict[] United States commerce” and that such action is “appropriate.”⁸¹ Action is not

76. See A. Lynne Puckett & William L. Reynolds, *Rules, Sanctions and Enforcement Under Section 301: At Odds with the WTO?*, 90 AM. J. INT’L L. 675, 677 (1996).

77. Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107 (codified as amended in scattered sections of 19 U.S.C.). See generally 4 NIMMER ON COPYRIGHT § 18.05[B][2] (for a discussion of the Omnibus Trade and Competitiveness Act of 1988).

78. Puckett, *supra* note 76, at 677. “As originally enacted, Section 301 . . . authorized the President to . . . combat unjustifiable, unreasonable, or discriminatory acts of foreign countries. As strengthened by the Omnibus Trade and Competitiveness Act of 1988, Section 301 authorized the [USTR] to use trade measures . . . to obtain adequate protection abroad for United States intellectual property.” 4 NIMMER ON COPYRIGHT § 18.04 [A] (internal citations omitted). See generally Marjorie Minkler, Note, *The Omnibus Trade Act of 1988, Section 301: A Permissible Enforcement Mechanism or a Violation of the United States’ Obligations Under International Law?*, 11 J.L. & COM 283, 284 (1992) (arguing that “although part of section 301 is an acceptable and necessary enforcement mechanism, the remainder oversteps the legal boundaries and constitutes a violation of United States’ obligations and rules of sovereign independence”).

79. Patrick C. Reed, *Expanding the Jurisdiction of the U.S. Court of International Trade: Proposals by the Customs and International Trade Bar Association*, 26 BROOK. J. INT’L L. 819, 836 (2001).

80. See 19 U.S.C. § 2411(a)(1).

If the United States Trade Representative determines . . . that—

(A) the rights of the United States under any trade agreement are being denied;
or

(B) an act, policy, or practice of a foreign country—

(i) violates, or is inconsistent with, the provisions of, . . . any trade agreement, or

(ii) is unjustifiable and burdens or restricts United States commerce . . .

19 U.S.C. § 2411(a)(1).

81. See 19 U.S.C. § 2411(b).

If the Trade Representative determines . . . that—

required, however, if a WTO dispute settlement body has already ruled that the rights of the United States under a trade agreement are not being violated.⁸² This means that the statutory language expresses a preference for the USTR to use the WTO's dispute settlement mechanism first, before initiating its own investigation.⁸³ If an investigation is initiated the USTR must make a determination within twelve months from the date on which the investigation was initiated,⁸⁴ or within eighteen months if the investigation involves a trade agreement.⁸⁵ If a violation is found, the USTR is then authorized to "suspend, withdraw, or prevent the application of, benefits of trade agreement concessions,"⁸⁶ "impose duties or other import restrictions on the goods [and] fees or restrictions on the services,"⁸⁷ or enter into agreements "to eliminate, or phase out, the act, policy, or practice,"⁸⁸ to "eliminate any burden or restriction,"⁸⁹ or to "provide the United States with compensatory trade benefits."⁹⁰

C. Special 301

In addition to amending the original or "regular" Section 301, the 1988 Omnibus, Trade and Competitiveness Act also added "Special

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- (1) an act, policy, or practice of a foreign country is unreasonable or discriminatory and burdens or restricts United States commerce, and
 - (2) action by the United States is appropriate, the Trade Representative shall take all appropriate and feasible action . . . to obtain the elimination of that act, policy, or practice. . . .

19 U.S.C. § 2411(b). See YOUNG, *supra* note 71, at 94-96.

82. See 19 U.S.C. § 2411(a)(2).

The Trade Representative is not required to take action . . . in any case in which—

- (A) the Dispute Settlement Body . . . has adopted a report, . . . that—
 - (i) the rights of the United States under a trade agreement are not being denied, or
 - (ii) the act, policy, or practice—
 - (I) is not a violation of, or inconsistent with, the rights of the United States, or
 - (II) does not deny, nullify, or impair benefits to the United States under any trade agreement . . .

19 U.S.C. § 2411(a)(2). See YOUNG, *supra* note 71, at 96-98.

83. See 19 U.S.C. § 2411(a)(2); YOUNG, *supra* note 71, at 96-98.

84. See 19 U.S.C. § 2414(a)(2)(B).

85. See 19 U.S.C. § 2414(a)(2)(A).

86. 19 U.S.C. § 2411(c)(1)(A).

87. 19 U.S.C. § 2411(c)(1)(B).

88. 19 U.S.C. § 2411(c)(1)(D)(i).

89. 19 U.S.C. § 2411(c)(1)(D)(ii).

90. 19 U.S.C. § 2411(c)(1)(D)(iii).

301” as a new part to Section 301.⁹¹ This section gives the USTR the authority to take unilateral action against individual countries that do not protect U.S. intellectual property by investigating them and imposing sanctions on them.⁹² The enactment of this section is frequently interpreted as being a direct consequence of Congress’s even greater dissatisfaction with GATT.⁹³

Under this section, the USTR is to identify countries that “deny adequate and effective protection of intellectual property rights,”⁹⁴ or “deny fair and equitable market access to United States persons that rely upon intellectual property protection.”⁹⁵ When naming these so called “priority foreign countries,”⁹⁶ the USTR is to identify only those countries “that have the most onerous or egregious acts, policies, or practices that – (i) deny adequate and effective intellectual property rights, or (ii) deny fair and equitable market access to United States persons that rely upon intellectual property protection,”⁹⁷ and submit an annual report of such findings to Congress,⁹⁸ as well as publish their

91. See 102 Stat. 1107; YOUNG, *supra* note 71, at 92.

92. See 19 U.S.C. § 2242; Puckett, *supra* note 76, at 675.

93. Kim Newby, *The Effectiveness of Special 301 in Creating Long Term Copyright Protection for U.S. Companies Overseas*, 21 SYRACUSE J. INT’L L. & COM. 29, 33 (1995).

94. 19 U.S.C. § 2242(a)(1)(A). See YOUNG, *supra* note 71, at 107. A country “denies adequate and effective protection of intellectual property rights” if it “denies adequate and effective means under the laws of the foreign country for persons who are not citizens or nationals of such foreign country to secure, exercise, and enforce rights relating to patents, process patents, registered trademarks, copyrights and mask works.” 19 U.S.C. § 2242(d)(2).

95. 19 U.S.C. § 2242(a)(1)(B). See YOUNG, *supra* note 71, at 107. A country “denies fair and equitable market access” if it:

effectively denies access to a market for a product protected by a copyright or related right, patent, trademark, mask work, trade secret, or plant breeder’s right, through the use of laws, procedures, practices, or regulations which—

(A) violate provisions of international law or international agreements to which both the United States and the foreign country are parties, or

(B) constitute discriminatory nontariff trade barriers.

19 U.S.C. § 2242(d)(3).

96. 19 U.S.C. § 2242(a)(2). See YOUNG, *supra* note 71, at 107.

97. 19 U.S.C. § 2242(b)(1)(A). See YOUNG, *supra* note 71, at 107.

98. 19 U.S.C. § 2242(g).

The Trade Representative shall, . . . transmit to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate, a report on actions taken under this section during the 12 months preceding such report, and the reasons for such actions, including a description of progress made in achieving improved intellectual property protection and market access for persons relying on intellectual property rights.

19 U.S.C. § 2242(g).

findings.⁹⁹ Typical behavior that might result in Special 301 action by the USTR is failing to “enter[] into good faith negotiations,”¹⁰⁰ or failing to “mak[e] significant progress in bilateral or multilateral negotiations, to provide adequate and effective protection of intellectual property rights.”¹⁰¹

Once a country has been designated “priority foreign country” under Special 301, the USTR then initiates an unfair trade practice investigation according to the regular Section 301 procedures.¹⁰² Unlike the ordinary Section 301, Special 301 also requires that the USTR make determinations about its investigations within as few as six months:¹⁰³ if the USTR publishes a notice explaining that additional time is needed due to complexity, progress made by the country, or enforcement measures undertaken by the country, the time allowed is nine months.¹⁰⁴

99. *Id.* § 2242(e). “The Trade Representative shall publish in the Federal Register a list of foreign countries identified under subsection (a) . . .” *Id.*

100. *Id.* § 2242(b)(1)(C)(i). See Puckett, *supra* note 76, at 680.

101. 19 U.S.C. § 2242(b)(1)(C)(ii). See Puckett, *supra* note 76, at 680.

102. See YOUNG, *supra* note 71, at 108.

103. See 19 U.S.C. § 2414(a)(3)(A).

If an investigation is initiated . . . and—

(i) the Trade Representative considers that rights under the Agreement on Trade-Related Aspects of Intellectual Property Rights or the GATT 1994 relating to products subject to intellectual property protection are involved, the Trade Representative shall make the determination required under paragraph (1) not later than 30 days after the date on which the dispute settlement procedure is concluded; or

(ii) the Trade Representative does not consider that a trade agreement, including the Agreement on Trade-Related Aspects of Intellectual Property Rights, is involved or does not make a determination described in subparagraph (B) with respect to such investigation, the Trade Representative shall make the determinations required under paragraph (1) with respect to such investigation not later than the date that is 6 months after the date on which such investigation is initiated.

Id.

104. See *id.* § 2414(a)(3)(B).

If the Trade Representative determines with respect to an investigation . . . that—

(i) complex or complicated issues are involved in the investigation that require additional time,

(ii) the foreign country involved in the investigation is making substantial progress in drafting or implementing legislative or administrative measures that will provide adequate and effective protection of intellectual property rights, or

(iii) such foreign country is undertaking enforcement measures to provide adequate and effective protection of intellectual property rights,

the Trade Representative shall publish in the Federal Register notice of such determination and shall make the determinations required under paragraph (1) with respect to such investigation by no later than the date that is 9 months after the date

To the frustration of many countries, “investigations of Special 301 priority states appear to be foregone conclusions. . . . [O]nce an investigation has begun, the factors that led to a state’s having been designated as a Special 301 priority state make it probable that its practices are actionable . . . under the retaliatory measures of section 301.”¹⁰⁵ Section 301, and particularly its Special 301 subset, has thus become a tool, unpopular among the countries subjected to it, that the USTR can use to investigate other countries and impose sanctions upon those whose trade practices are deemed unfair to United States’ interests.¹⁰⁶

In addition to designating “priority foreign countries,” as mandated by the statute, the USTR has also created three other categories: countries of “growing concern,” countries on a “watch list,” and countries on a “priority watch list.”¹⁰⁷ In an increasing order of seriousness, the purpose of these categories is to monitor the adequacy of a country’s protection of American intellectual property rights and to serve as precursors to possible elevation to “priority foreign country” status.¹⁰⁸

D. United States’ Ratification of TRIPS

In ratifying the TRIPS Agreement, the United States also became a signatory to the DSU and thereby agreed to adhere to the WTO dispute settlement mechanism, according to which the General Council has authority to settle disputes.¹⁰⁹ Following the Uruguay Round, to the disappointment of many foreign countries, the United States neither repealed nor modified Section 301.¹¹⁰ Instead, the United States merely

on which such investigation is initiated.

Id.

105. Theodore H. Davis Jr., *Combating Piracy of Intellectual Property in International Markets: A Proposed Modification of the Special 301 Action*, 24 VAND. J. TRANSNAT’L L. 505, 529 (1991).

106. Puckett, *supra* note 76, at 675.

107. YOUNG, *supra* note 71, at 108-09.

108. *Id.*

109. TRIPS, *supra* note 1, art. 68; DSU, *supra* note 57; Hicks, *supra* note 14, at 783.

110. YOUNG, *supra* note 71, at 151. Failure by the United States to repeal Special 301 after the Uruguay Round was a great disappointment to many countries, as the aggressive use of this statute, which “required the entire world community to respond to U.S. demands for increased intellectual property protection” was a major reason for why many countries had agreed to include protection of intellectual property in the Uruguay Round negotiations in the first place. *Id.* In fact, “[i]t was generally understood that one of the most important reasons why U.S. trading partners agreed to improve the WTO dispute settlement process and to make it more judicial was to impose restrictions on the use of Section 301.” Seung

amended it so as to not conflict with the WTO dispute settlement mechanism by, in 1994, changing it to include the language: "[n]o provision of any of the Uruguay Round Agreements . . . that is inconsistent with any law of the United States shall have effect."¹¹¹ Though the language is far from straightforward it effectively means that a country can be found to "deny[] adequate and effective protection of intellectual property rights" under Section 301 even if it is in compliance with TRIPS.¹¹² To make absolutely certain that this was in fact the case, the following language was added to Special 301: "A foreign country may be determined to deny adequate and effective protection of intellectual property rights, notwithstanding the fact that the foreign country may be in compliance with the specific obligations of the Agreement on Trade-Related Aspects of Intellectual Property Rights . . ."¹¹³ This is further evidenced by a House Report which states that: "The Committee wishes to ensure that section 301 authority remains a strong and effective means for the United States to enforce its rights under trade agreements *and to deal with other foreign unfair trade practices*."¹¹⁴ Similarly, another House Report makes clear that the U.S. plans to use Special 301 to "pursue vigorously foreign unfair trade barriers that violate U.S. rights or deny benefits to the United States under the Uruguay Round . . . [as well as] pursue foreign trade barriers that are not covered by those agreements."¹¹⁵

Even though the DSU neither addresses unilateral measures nor forbids a Member country from using them to protect its intellectual property, both Section 23 of the DSU and TRIPS explicitly include an obligation to submit intellectual property complaints to the WTO dispute settlement body, which arguably creates an obligation not to use

Wha Chang, *Taming Unilateralism Under the Multilateral Trading System: Unfinished Job in the WTO Panel Ruling on U.S. Sections 301-310 of the Trade Act of 1974*, 31 LAW & POL'Y INT'L BUS. 1151, 1154 (2000) (internal citations omitted).

111. Uruguay Round Agreements Act, Pub. L. No. 103-465, 108 Stat. 4809, 4938 (1994). See generally 4 NIMMER ON COPYRIGHT § 18.06 (for an in depth discussion of the U.S. adoption of the Uruguay Round agreements).

112. Puckett, *supra* note 76, at 680.

113. 19 U.S.C. § 2242(d)(4).

114. Puckett, *supra* note 76, at 688, citing H.R. REP. NO. 826, 103d Cong., 2d Sess. 137 (1994), reprinted in 1994 U.S.C.C.A.N. 3773, 3909. As a matter of fact, "United States' officials declared on several occasions that Section 301, far from being weakened, became more 'effective' with the DSU." Chang, *supra* note 110, at 1154.

115. 1 Uruguay Round Trade Agreements, Texts of Agreements, Implementing Bill, Statement of Administrative Action, and Required Supporting Statements, H.R. Doc. No. 316, 103d Cong., 2d Sess. 1029 (1994).

unilateral measures against other Member countries.¹¹⁶ However, although Section 301 merely states that no action is required if the use of international dispute settlement procedures has already yielded a ruling with regard to a trade agreement,¹¹⁷ the USTR appears to interpret this language to mean that the use of Section 301 procedures is appropriate as long as the WTO's dispute resolution process is *also* used.¹¹⁸ To date, this has in fact been done,¹¹⁹ and Special 301 hence appears procedurally consistent with the WTO's dispute settlement mechanism. According to the DSU, WTO members may not conclude that another Member has violated the Uruguay Round Agreement before the WTO dispute settlement body has done so first.¹²⁰ However, if the USTR designates a country as a priority foreign country and the WTO does not make a determination regarding whether the country violated the Agreement within either six or nine months, depending on the circumstances, the USTR *must* make such a determination.¹²¹ It, therefore, follows that if the USTR were to make such a determination before the WTO has made its determination, the United States would be in violation of the DSU. Although some scholars feel that the DSU has decreased the United States' ability to unilaterally use Section 301 for retaliation,¹²² the fact that the United States has the ability to use

116. Article 23 of the WTO Dispute Settlement Understanding states:

When Members seek the redress of a violation of obligations or other nullification or impairment of benefits under the covered agreements . . . they shall have recourse to, and abide by, the rules and procedures of this Understanding. . . . In such cases, Members shall: (a) not make a determination to the effect that a violation has occurred, that benefits have been nullified or impaired or that the attainment of any objective of the covered agreements has been impeded, except through recourse to dispute settlement in accordance with the rules and procedures of this Understanding, and shall make any such determination consistent with the findings contained in the panel or Appellate Body report adopted by the DSB . . .

DSU, *supra* note 57, art. 23; TRIPS, *supra* note 1, art. 41. See also Kevin M. McDonald, *The Unilateral Undermining of Conventional International Trade Law Via Section 301*, 7 J. INT'L L. & PRAC. 395 (1998) (arguing that "Section 301 violates international conventional law" through "obligations imposed on WTO members to adhere to dispute resolution procedures and refrain from unilateral determinations of WTO violations").

117. See 19 U.S.C. § 2411(a)(2). See *supra* note 82 and accompanying text.

118. See Cheek, *supra* note 32, at 301.

119. *Id.*

120. DSU, *supra* note 57, art. 1, at 114 (1994); Timothy C. Bickham, *Protecting U.S. Intellectual Property Rights Abroad with Special 301*, 23 AIPLA Q.J. 195, 202-03 (1995).

121. See 19 U.S.C. § 2414 (a)(3)(A)-(B); see also *supra* notes 101-02 and accompanying text.

122. See, e.g., John Gero & Kathleen Lannan, *Trade and Innovation: Unilateralism v. Multilateralism*, 21 CAN.-U.S. L.J. 81, 94-95 (1995) (arguing that "the DSU . . . reduces the credibility of the threat of section 301 unilateral retaliation, since such retaliation is likely to

Section 301 in a manner that is inconsistent with its WTO obligations means that many countries remain uneasy.¹²³ In the words of one scholar:

[T]he United States can abandon the [Dispute Settlement Body's] procedures of the WTO, unilaterally invoke Section 301, and impose accusations of engaging in unjustified trade on the defendant and adjudicate the case in accordance with its statute, in the dual capacities of both plaintiff and judge, all pursuant to its self-established statutory criteria!¹²⁴

E. Current Use of Section 301 by the United States and Its Effect

Despite TRIPS, the United States has indeed continued to both use and threaten Section 301. According to the USTR's May 2004 Report, the USTR has identified the Ukraine as a priority foreign country under Special 301.¹²⁵ This designation was due to the Ukraine's "persistent failure to take effective action against significant levels of optical media piracy and to implement intellectual property laws that provide adequate and effective protection."¹²⁶ The USTR contended that this

violate the WTO provisions, and WTO violations are likely to be dealt with relatively swiftly and efficiently under the DSU" (internal citations omitted)).

123. JACKSON ET AL., *supra* note 15, at 319. See also C. O'Neal Taylor, *The Limits of Economic Power: Section 301 and the World Trade Organization Dispute Settlement System*, 30 VAND. J. TRANSNAT'L L. 209 (1997).

Unilateralism, as exemplified by Section 301, has limitations which keep it from being the complete answer for U.S. trade problems. When it acts unilaterally, the United States greatest power comes only when threatening or actually taking action of the type it most desires - market closing. Actions like this, if not always GATT illegal, do violate the spirit of GATT law. Self-help can be justified only when the international system cannot or will not act to vindicate international law. An improved international system capable of doing both, . . . now exists. Unfortunately, so does the lure of unilateralism. . . . If the United States persists in taking unilateral action, it will find itself defending such actions in the WTO. For issues of great concern, becoming a GATT violation may be worth the price. Whether that price is an acceptable one for all U.S. trade problems is unlikely. U.S. efforts to reform the GATT have left it with a new dispute settlement system designed to extract compliance from wayward nations, multilaterally not unilaterally.

Id. at 315.

124. An Chen, *The Three Big Rounds of U.S. Unilateralism Versus WTO Multilateralism During the Last Decade: A Combined Analysis of the Great 1994 Sovereignty Debate, Section 301 Disputes (1998-2000), and Section 201 Disputes (2002-Present)*, 17 TEMP. INT'L & COMP. L.J. 409, 429 (2003).

125. Office of the United States Trade Representative: Special 301 Report Priority Foreign Country, http://www.ustr.gov/Document_Library/Reports_Publications/2004/2004_Special_301/Special_301_Report_Priority_Foreign_Country.html (last visited Jan. 9, 2005).

126. 2004 Special 301 Report: Executive Summary, *available at* http://www.ustr.gov/assets/Document_Library/Reports_Publications/2004/2004_Special_301/asset_upload_file16_

failure has caused “substantial losses to U.S. industry.”¹²⁷ After the Ukraine initially failed to fulfill a commitment made in 2000, and after subsequent bilateral consultations failed to result in an agreement, in 2002 the USTR issued a retaliation list, which included raised and additional duties on imports from the Ukraine.¹²⁸ In 2004, these sanctions, which amount to a total of \$75 million, remain in place.¹²⁹ In addition, in 2004 fifteen countries were placed on the “priority watch list”¹³⁰ and thirty-four more were placed on the “watch list.”¹³¹

The current trend is that, as a result of this continued use of bilateral measures by the United States, many countries have little choice but to comply. The typical outcome of Section 301 investigations has been new legislation in the country in question and/or bilateral agreements in which the countries promise to change their practices.¹³² Even the Ukrainian Government has drafted amendments to address inadequacies in its optical disc licensing laws; however, this has so far not been enough to deter the United States from continuing to impose

5995.pdf (last visited Jan. 9, 2005).

127. Office of the United States Trade Representative: Special 301 Report Priority Foreign Country, *supra* note 125.

128. USITC Pub. No. 3630, Industry Report, The Year in Trade 2002 Operation of the Trade Agreements Program 54th Report, 39, August 2003, 2003 WL 22231472 (U.S.I.T.C.).

129. Office of the United States Trade Representative: Special 301 Report Priority Foreign Country, *supra* note 125.

130. The countries on the “Priority Watch List,” according to the USTR’s annual report for 2004, are: Argentina, Bahamas, Brazil, Egypt, European Union, India, Indonesia, Korea, Kuwait, Lebanon, Pakistan, Republic of the Philippines, Russia, Taiwan, and Turkey. Office of the United States Trade Representative: Special 301 Priority Watch List, *available at* http://www.ustr.gov/Document_Library/Reports_Publications/2004/2004_Special_301/Special_301_Priority_Watch_List.html (last visited Jan. 9, 2005) (the USTR website contains current information about the countries that are “priority foreign countries,” on the “priority watch list,” or on the “watch list,” as well as explanations about what action or inaction on the part of that particular country was the reason why the USTR gave it that status).

131. The countries on the “Watch List,” according to the USTR’s annual report for 2004, are: Azerbaijan, Belarus, Belize, Bolivia, Bulgaria, Canada, Chile, Colombia, Costa Rica, Croatia, Dominican Republic, Ecuador, Guatemala, Hungary, Israel, Italy, Jamaica, Kazakhstan, Latvia, Lithuania, Malaysia, Mexico, Peru, Poland, Romania, Saudi Arabia, Slovak Republic, Tajikistan, Thailand, Turkmenistan, Uruguay, Uzbekistan, Venezuela, and Vietnam. Office of the United States Trade Representative: 2004 Special 301 Report Watch List, *available at* http://www.ustr.gov/Document_Library/Reports_Publications/2004/2004_Special_301/2004_Special_301_Report_Watch_List.html (last visited Jan. 9, 2005).

132. Cheek, *supra* note 32, at 301. *See also* Inti Linkletter Knapp, Comment, *The Software Piracy Battle in Latin America: Should the United States Pursue its Aggressive Bilateral Trade Policy Despite the Multilateral TRIPS Enforcement Framework?*, 21 U. PA. J. INT’L ECON. L. 173, 178-79 (2000) (discussing specifically U.S. bilateral agreements with Nigeria and Bolivia).

sanctions.¹³³ In 1988, in retaliation for Brazil's failure to change its policies and protect pharmaceuticals in a manner considered "adequate" by the United States, the United States imposed Section 301 sanctions against Brazil, which consisted of a drastic 100% tariff on other Brazilian exports such as paper and electronics.¹³⁴ Many countries simply cannot afford to risk a similar fate.

F. Criticism Against Section 301

Other countries, feeling that the unilateral actions taken by the United States are contrary to TRIPS because they supercede the WTO's authority to settle disputes, have expressed disapproval of the continued use of such actions by the United States.¹³⁵ Many argue that the use of Section 301, which some have also referred to as the "the H-bomb of trade policy,"¹³⁶ or "the 'big stick' that the [USTR]... waves to threaten... its trade adversaries"¹³⁷ has resulted in a negative world opinion.¹³⁸

133. Office of the United States Trade Representative: Special 301 Report Priority Foreign Country, *supra* note 125.

134. *Unfair Trade Practices: Reagan, Charging Patent Piracy, Imposes Sanctions on \$39 Million of Brazilian Goods*, *International Trade Reporter News Highlights*, October 26, 1988, 5 IRT 1415, 1. See also Judy Rein, *International Governance Through Trade Agreements: Patent Protection for Essential Medicines*, 21 NW. J. INT'L L. & BUS. 379, 393 (2001) (discussing pharmaceutical patents, particularly patents for drugs used to treat HIV/AIDS); Gero, *supra* note 122, at 86-87 (analyzing the case of Brazilian pharmaceuticals). The Pharmaceutical Manufacturers Association, that was for the sanction, called Brazil a "global leader in its opposition to patent protection" and declared that it "hope[s] the imposition of this sanction, which is modest in comparison to the revenue losses sustained by our industry in Brazil will impress upon Brazil the seriousness with which the United States views the unauthorized appropriation of its citizens' intellectual property." *Unfair Trade Practices: Reagan, Charging Patent Piracy, Imposes Sanctions on \$39 Million of Brazilian Goods*, *International Trade Reporter News Highlights*, October 26, 1988, 5 ITR 1415, 2 (internal quotations omitted).

135. Cheek, *supra* note 32, at 301.

136. Peter K. Yu, *From Pirates to Partners: Protecting Intellectual Property in China in the Twenty- First Century*, 50 AM. U. L. REV. 131, 138 (2000) (internal quotations and citations omitted). A similar analogy was drawn by another commentator calling Special 301 "the 'nuclear weapon of trade remedies' (i.e., better brandished than detonated)..." WILLIAM ALFORD, *TO STEAL A BOOK IS AN ELEGANT OFFENSE: INTELLECTUAL PROPERTY IN CHINESE CIVILIZATION* 104 (1995), *quoted in* 4 NIMMER ON COPYRIGHT § 18.04 [B].

137. Chen, *supra* note 124, at 425-26.

138. "When the United States opts for swift section 301 results over slower WTO dispute settlement procedures... [it] is not laying the foundation for true cultural acceptance of intellectual property rights. Rather, U.S. trade aggression increases the... perception that the true beneficiaries of intellectual property rights are U.S. capitalists." Knapp, *supra* note 132, at 205.

Although it can be argued that countries that enter into bilateral agreements as a result of Section 301 measures are not doing so merely by being coerced into them by the United States, but are also motivated by factors such as reduced negative press resulting from a lack of enforcement of intellectual property rights,¹³⁹ much of the world seems to view Section 301 with nothing but displeasure. One scholar analyzes the impact of such outcomes as follows:

A system that results out of such bilateral treaties can be unfair, inconsistent and confusing. Attempts at bilateral agreements with those nations standing outside the standard international treaties is only practicable for nations that wield considerable political and economic clout, and then only when the outside party is in a particularly weak or dependent position. . . . Any gains that are made through a bilateral agreement accrue only to the parties involved; globally, international intellectual property rights situation is not significantly improved.¹⁴⁰

In fact, in 1999, after years of complaining that Section 301 is not consistent with WTO obligations, specifically the most favored nation principle,¹⁴¹ the European Communities brought a complaint against the United States in the WTO Dispute Settlement Body.¹⁴² This case was

139. See, e.g., Alisa M. Wrase, Comment, *U.S. Bilateral Agreements and the Protection of Intellectual Property Rights in Foreign Countries: Effective for U.S. Intellectual Property Interests or a Way Out of Addressing the Issue?*, 19 DICK. J. INT'L L. 245, 254 (2000). "For a foreign country that executes bilateral agreements with the United States, the emphasis on the bilateral agreement is to help the foreign country's international and economic standing, not preserve intellectual property rights." *Id.* at 246.

140. Caviedes, *supra* note 24, at 182 (internal citations omitted). See also Davis *supra* note 105, at 527-28.

By imposing its own rules concerning the appropriate level of protection for intellectual property rights, the United States effectively forces its trading partners to adopt methods of protection that may or may not be the most desirable or efficient for those states. Moreover, adherence to these standards may influence detrimentally the future rules and mechanisms for the international protection of intellectual property

Id. at 527 (internal citations omitted).

141. See McDonald, *supra* note 116, at 408.

Where Section 301 made unilateral determinations on violations of WTO trade agreements, it violates obligations entered into pursuant to the DSU. . . . Article 23.2 of the DSU prohibits WTO members from making unilateral determinations as to whether any other member has violated obligations arising from any of the WTO agreements. Such determinations must be made through the dispute settlement system in accordance with the rules and procedures of the DSU.

Id. (internal citations omitted).

142. United States – Sections 301–310 of the Trade Act of 1974 – Report of the Panel [hereinafter Sections 301–310 of the Trade Act of 1974 case], WT/DS152/R/USA (Dec. 22,

brought as a result of another case, the *Regime for the Importation and Distribution of Bananas Case*,¹⁴³ in which the WTO had ruled against the European Communities and in favor of the United States. Alleging that the European Communities had failed to follow the WTO Dispute Settlement Panel's ruling, the United States had commenced Section 301 actions against the European Communities,¹⁴⁴ and these actions were the reason for the European Communities' complaint that directly challenged Section 301's consistency with the DSU.¹⁴⁵

The WTO found that Section 301 was in "prime facie violation" of Article 23 of the DSU.¹⁴⁶ Still, the Dispute Settlement Report held that Section 301 was consistent with WTO rules because the Panel

1999) available at www.wto.org/english/tratop_e/dispu_e/wtds152r.pdf (last visited Jan. 10, 2005). See Hernan L. Bentolila, *Lessons From the United States Trade Policies to Convert a "Pirate": The Case of Pharmaceutical Patents in Argentina*, 5 YALE J.L. & TECH. 1, 59 (2003); see also Chen, *supra* note 124 (providing a comprehensive discussion and analysis of both the dispute and the Dispute Settlement Body's report).

143. See European Communities – Regime for the Importation, Sale and Distribution of Bananas, Complaint by the United States, Report of the Panel [hereinafter the Banana case], WT/DS27/R (May 22, 1997) available at <http://www.sice.oas.org/DISPUTE/wto/rusa.asp> (last visited Jan. 10, 2005). Along with the United States, similar successful complaints against the European Communities were also filed by four other countries: Ecuador, Honduras and Guatemala (jointly), and Mexico. For Ecuador see, European Communities – Regime for the Importation, Sale and Distribution of Banana, Complaint by Ecuador, Report of the Panel, WT/DS27/R/ECU (May 22, 1997) available at <http://www.sice.oas.org/DISPUTE/wto/recu.asp> (last visited Jan. 10, 2005). For Honduras and Guatemala see European Communities – Regime for the Importation, Sale and Distribution of Banana, Complaint by Guatemala and Honduras, Report of the Panel, WT/DS27/R/GTM, WT/DS27/R/HND (May 22, 1997) available at <http://www.sice.oas.org/DISPUTE/wto/rhnd.asp> (last visited Jan. 10, 2005). For Mexico see European Communities – Regime for the Importation, Sale and Distribution of Bananas, Complaint by Mexico, Report of the Panel, WT/DS27/R/MEX (May 22, 1997) available at <http://www.sice.oas.org/DISPUTE/wto/rmex.asp> (last visited Jan. 10, 2005). See also Chang, *supra* note 110, at 1160-65 (for a detailed analysis of the Banana case). The outcome of the Banana case was challenged by the European Communities, but in 1998 and 1999 two arbitration panels upheld the original panel's decision. See European Communities – Regime for the Importation, Sale and Distribution of Bananas – Arbitration under Article 21.3(c) of the Understanding on Rules and Procedures Governing the Settlement of Disputes, WT/DS27/15, (Jan. 7, 1998), available at http://www.wto.org/english/tratop_e/dispu_e/27-15.pdf (last visited Jan. 10, 2005); European Communities – Regime for the Importation, Sale and Distribution of Bananas – Recourse to Arbitration by the European Communities under Article 22.6 of the DSU – Decision by the Arbitrators, WT/DS27/ARB (Apr. 9, 1999), available at http://www.wto.org/english/tratop_e/dispu_e/1735d.pdf (last visited Jan. 10, 2005).

144. See Implementation of WTO Recommendations Concerning the European Communities' Regime for the Importation, Sale and Distribution of Bananas, 63 Fed. Reg. 56687 (Oct. 22, 1998).

145. See Sections 301–310 of the Trade Act of 1974 case.

146. *Id.* para. 7.97. See also Chang, *supra* note 110, at 1166-83 (for an in depth analysis of the dispute settlement panel's ruling in the Sections 301–310 of the Trade Act of 1974 case).

determined that the Statement of Administrative Action,¹⁴⁷ submitted by the Administration in hopes of receiving Congressional Approval for the Uruguay Round, showed a lack of unilateral action, by promising to resort to the WTO Dispute Settlement Body when required.¹⁴⁸ The report made clear, however, that the decision was limited to the specific claims made in the case: "We are not asked to make an overall assessment of the compatibility of Sections 301-310 with the WTO agreements. . . . We are, in particular, not called upon to examine the WTO compatibility of US actions taken in individual cases in which Sections 301-310 have been applied."¹⁴⁹ Despite the report's cautious language, the United States took the result as a victory.¹⁵⁰ Some, however, feel that though the outcome was a financial win for the United States, in the end the United States "has paid the great price of its international credit and image for its reckless waving of the 'big stick,' . . . to implement a unilateral threat after it has undertaken its international obligations under multilateral system of WTO/DSB."¹⁵¹ One scholar criticized the Panel's decision as follows:

First, the Panel creates a limit for its own duty, being overly cautious, declining to transgress the bounds, or the terms of reference, and is responsible in its duties. Second, the Panel is *shilly-shallying* towards the two powers, and is smooth and slick in ingratiating itself with both sides. Third, the Panel leaves the offender at large, criticizing the offender pettily while doing it great favor. Fourth, the Panel is partial to and pleads for hegemony. In the end, the Panel leaves a lot of suspicions and hidden risks.¹⁵²

Another felt that "[w]hile the . . . Panel Report is politically astute, its legal underpinnings are flawed . . . and its policy implications for the future of the WTO Dispute Settlement Body . . . generate serious concerns," continuing that "the Panel ruling explicitly left many

147. Statement of Administrative Action, reprinted in Uruguay Round Agreements, Texts of Agreements, Implementing Bill, Statement of Administrative Action, and Required Supporting Statements, 103d Cong., 2d Sess., H.R. Doc. No. 103-316 (1994) reprinted in 1994 U.S.C.C.A.N. 4040.

148. See Sections 301-310 of the Trade Act of 1974 case, paras. 7.109, 7.111; Joel W. Rogers & Joseph P. Whitlock, *Is Section 337 Consistent with the GATT and TRIPS Agreement?*, 17 AM. U. INT'L L. REV. 459, 464-65, n.15 (2002); see also JACKSON ET AL., *supra* note 15, at 319-31.

149. Sections 301-310 of the Trade Act of 1974 case, para. 7.13.

150. Bentolila, *supra* note 142, at 59.

151. Chen, *supra* note 124, at 433.

152. *Id.* at 445.

important legal questions unresolved.”¹⁵³ In other words, the issue is, far from resolved. An example of an area in which the measure has been used, gray market goods, is thus illustrative. As the following sections demonstrate, gray market goods are a particularly interesting example because TRIPS fails to provide guidance as to how to approach them.

IV. GRAY MARKET GOODS AND THE DOCTRINE OF EXHAUSTION

A. Gray Market Goods

Gray market goods, also known as parallel imports, are goods manufactured in a foreign country, registered in the United States, legally purchased abroad and imported into the United States, and then resold without the consent of the authorized distributor.¹⁵⁴ Such goods are not counterfeit or pirated, that is, they do not directly infringe on any intellectual property right;¹⁵⁵ however, the means by which they are distributed is unauthorized.¹⁵⁶ Frequently, these goods are sold at significantly lower prices than the corresponding goods that are sold by authorized merchants.¹⁵⁷ The primary reason for the existence of gray market goods is that prices in various regions differ so much as to make it profitable for a gray marketer to purchase goods abroad, bring them to the United States, and resell them in the United States.¹⁵⁸ They are problematic because they make it very difficult to maintain differences in prices, product models, and quality standards in the various countries where goods are sold.¹⁵⁹

Advocates of gray market goods are of the opinion that international differences in price are an illustration of “monopoly power” and stress that the gray marketers help break down trade barriers.¹⁶⁰ In addition, they further argue that even if market power is

153. Chang, *supra* note 110, at 1156.

154. *Ferrero U.S.A., Inc. v. Ozak Trading, Inc.*, 952 F.2d 44, 45-46 n.1 (3d Cir. 1991). See *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988). “A gray-market good is a foreign-manufactured good, bearing a valid United States trademark, that is imported without the consent of the United States trademark holder.” *Id.* at 285.

155. Ugolini, *supra* note 16, at 452.

156. Shubha Ghosh, *Pills, Patents, and Power: State Creation of Gray Markets as a Limit on Patent Rights*, 14 FLA. J. INT’L L. 217, 218 (2002).

157. Brian D. Coggio & Adriane M. Antler, *The Utilization of United States Patents to Prevent the Importation and Sale of Gray Goods*, 83 TRADEMARK REP. 481, 481 (1993).

158. Ghosh, *Pills, Patents, and Power: State Creation of Gray Markets as a Limit on Patent Rights*, *supra* note 156, at 218.

159. Ugolini, *supra* note 16, at 452.

160. Shubha Ghosh, *An Economic Analysis of the Common Control Exception to Gray*

not the reason for restrictions, gray market goods serve to equalize prices globally and thereby harmonize the market.¹⁶¹

Opponents of gray market goods, on the other hand, tend to argue that international price differences are simply the result of differing tastes, differing technologies, as well as variances in government regulations, and contend that consumers ultimately benefit from better services and are assured of the quality.¹⁶² They also bring up the so called "free rider" problem, created by the most favored nation requirement that bars discrimination, where gray marketers are free riding on the manufacturers' good will.¹⁶³

B. The First Sale Doctrine – Exhaustion of Rights and the Failure of TRIPS to Address It

If a gray marketer buys a product from an authorized dealer overseas and redistributes it in the United States, and the product was legally created under United States law, according to the first sale doctrine, the person who distributes it in the United States cannot be sued for infringement.¹⁶⁴ In other words, "some or all of the exclusive rights of intellectual property are 'exhausted' . . . upon the first authorized sale or disposition," and the first sale thus releases the purchaser from liability with respect to use and resale of the item.¹⁶⁵

TRIPS states that "[f]or the purposes of dispute settlement under this Agreement, . . . nothing in this Agreement shall be used to address the issue the of exhaustion of intellectual property rights,"¹⁶⁶ which means that the agreement effectively avoids addressing the issue of gray market goods. Presumably because the nations that took part in the Uruguay Round negotiations were unable to agree upon how to treat exhaustion, TRIPS simply expressly states that it does not address the issue, and thus leaves the issues up to the discretion of each signatory.¹⁶⁷

Market Exclusion, 15 U. PA. J. INT'L BUS. L. 373, 377 (1994).

161. *Id.* at 377-78. See JACKSON ET AL., *supra* note 15, at 950.

162. Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, *supra* note 160, at 378.

163. Caviedes, *supra* note 24, at 195. See JACKSON ET AL., *supra* note 15, at 950.

164. Ghosh, *Pills, Patents, and Power: State Creation of Gray Markets as a Limit on Patent Rights*, *supra* note 156, at 220.

165. Andy Y. Sun, *From Pirate King to Jungle King: Transformation of Taiwan's Intellectual Property Protection*, 9 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 67, 87 (1998), citing J. THOMAS MCCARTHY, MCCARTHY'S DESK ENCYCLOPEDIA FOR INTELLECTUAL PROPERTY 156 (2d ed. 1995).

166. TRIPS, *supra* note 1, art. 6.

167. Sun, *supra* note 165, at 87.

With respect to the three major branches of intellectual property—trademarks, copyrights, and patents—the United States has reacted to gray market goods in the following ways.

Regarding trademarks, the Supreme Court held in 1988 in *K Mart Corp. v. Cartier, Inc.*,¹⁶⁸ that the United States' Customs Service will not 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.¹⁶⁹ This squarely meant that the Court declined to protect trademarks from parallel imports.¹⁷⁰

With regard to copyrights, a broad reading of Section 602(a) of the Copyright Act would indicate that copyrighted works cannot be imported without the consent of the copyright owner, thereby promoting price discrimination between regions and deterring parallel imports.¹⁷¹ Yet, in *Quality King Distributors, Inc. v. L'Anza Research International, Inc.*,¹⁷² the Supreme Court held, under the first sale doctrine, that when a product is lawfully made under United States copyright law, a claim for infringement cannot be brought, regardless of where the initial sale took place.¹⁷³ In other words, "the first sale doctrine trumps the copyright owner's right to control imports."¹⁷⁴

168. 486 U.S. 281.

169. *Id.* The customs service regulation 19 C.F.R. § 133.21(c)(1)-(3) (1987) provides for an exception to section 526 of the Tariff Act of 1930 which bans gray-market goods. U.S. trademark holders sought a declaration that the regulation be declared invalid as well as an injunction on its enforcement. The Supreme Court held that the common control exceptions of sections 133.21(c)(1)-(2), which makes the importation ban inapplicable to goods manufactured abroad by the same person who held the U.S. trademark, or by a person subject to common control with the U.S. trademark holder, were consistent with section 526 and valid. The Court did, however, not find the authorized use exception of section 133.21(c)(3), which permits the importation of gray-market goods if the product bears a trademark that is applied under authorization of the U.S. owner, valid, because it conflicted with the plain language of the statute. *See also* Christopher A. Mohr, Comment, *Gray Market Goods and Copyright Law: An End Run Around Kmart v. Cartier*, 45 CATH. U.L. REV. 561 (1996) (exhaustively analyzes gray market goods through a comprehensive examination of *K Mart v. Cartier*).

170. *K Mart*, 486 U.S. 281; Mohr, *supra* note 169, at 563-64.

171. 17 U.S.C. § 602(a) (2004).

172. 523 U.S. 135 (1998).

173. *Id.* In this case the manufacturer of hair care products with copyrighted labels charged foreign distributors significantly less than U.S. distributors for the same products. The products were bought in bulk abroad and imported and resold at discounted prices in the U.S. by unauthorized distributors. The manufacturer sued the importer for infringement claiming that the importation of products with copyrighted labels was a violation of Section 602 of the Copyright Act. The Supreme Court, reversing the Court of Appeals' decision, held that Section 602 of the Copyright Act did not prohibit the importer from bringing products with copyrighted labels into, and selling them in the United States. *Id.* *See also* 2 NIMMER

Regarding patents, in *Boesch v. Gräff*¹⁷⁵ the Supreme Court, refused to extend the first sale doctrine outside national borders.¹⁷⁶ The Court held that a United States resident could not purchase abroad items that are patented in the United States, and then resell them without the permission of the United States patentee, despite the items also being patented in the foreign country and having been purchased from a merchant authorized to sell them.¹⁷⁷ In the United States, patented goods therefore enjoy the strongest protection from gray marketing.

C. The Universality Principle and the Territoriality Principle

The doctrine of exhaustion yields a major controversy regarding its application: whether it should be restricted so as to apply only within a domestic market or whether it should be allowed to be applied more universally without limitations by national borders.¹⁷⁸ The former is known as the territoriality principle, the latter as the universality principle or international exhaustion.¹⁷⁹ Either doctrine, if formally adopted by TRIPS, could have an enormous impact and could cause, for instance, great fluctuations in price as well as structural changes in both the market and the scheme of technology transfers.¹⁸⁰

The universality principle,¹⁸¹ typically advocated by developing countries, would entail adherence to the most favored nation principle with regard to gray market goods and implies treating every member state equally and not taking municipal measures to restrict the sale of

ON COPYRIGHT § 8.12 [B][6][c]. With respect to copyrights, the first sale doctrine can be traced back to 1908, when the Supreme Court announced in *Bobbs-Merrill Co. v. Straus*, that under the then applicable copyright law a copyright holder's exclusive right to sell did not apply after the first sale and could not be restricted without an explicit contract to the contrary. *Bobbs-Merrill*, 210 U.S. 339 (1908). See 2 NIMMER ON COPYRIGHT § 8.12 [B][1].

174. Michael J. Meurer, *Copyright Law and Price Discrimination*, 23 CARDOZO L. REV. 55, 141 (2001). See *Quality King*, 523 U.S. 135.

175. 133 U.S. 697 (1890).

176. *Id.*

177. *Id.* Here, the defendant had purchased lamp burners in Germany that were patented both in the United States and Germany, and had then resold them in the United States. The plaintiff sued the defendant for patent infringement and agreeing with the plaintiff the Supreme Court awarded damages and granted an injunction. *Id.*

178. Sun, *supra* note 165, at 87.

179. Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, *supra* note 160, at 384-86.

180. See Sun, *supra* note 165, at 87.

181. *Apollinaris Co., Ltd. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886) (sets forth the universality principle).

goods after the first sale.¹⁸² However, international exhaustion would reduce the value of intellectual property.¹⁸³

[T]he doctrine of international exhaustion of rights follows the [WTO] philosophy of free trade and elimination of trade barriers. If the TRIPs Agreement were to establish substantially uniform substantive and procedural rules on the global protection of intellectual property, it would weaken the argument in favor of tolerating restrictions on the parallel imports, since the intellectual property owner . . . would receive adequate remuneration in one country in accordance with the TRIPs standards.¹⁸⁴

The alternative, the territoriality principle¹⁸⁵ aims to prevent unauthorized importers from buying a large amount of patented, copyrighted, or trademarked goods in a foreign market where they are sold at much lower prices, and reselling them in the United States where prices are higher.¹⁸⁶ Most industrialized countries favor this principle. One scholar even argues that from the failure of TRIPS to address exhaustion, combined with applying the national treatment and most favored nation principles to the holders of the intellectual property rights, "[i]t follows . . . that it should be permissible to apply the exhaustion of exclusive rights only to domestic trade and not to external trade, provided that the national and foreign holders of the exclusive rights are treated in the same manner."¹⁸⁷

Since TRIPS, by choosing not to deal with the issue, leaves it up to the individual member nations to implement exhaustion measures, a state is free to choose international exhaustion.¹⁸⁸ Doing so, however, means that it is then subject to both the national treatment and the most favored nation principles.¹⁸⁹

182. Caviedes, *supra* note 24, at 196-97. See Margreth Barrett, *The United States' Doctrine of Exhaustion: Parallel Imports of Patented Goods*, 27 N. KY. L. REV. 911, 914-15 (2000).

183. See Caviedes, *supra* note 24, at 197.

184. *Id.* (internal citations omitted).

185. *A. Bourjois & Co., Inc. v. Katzel*, 260 U.S. 689 (1923) (sets forth the territoriality principle).

186. See Barrett, *supra* note 182, at 915-16; Hillary A. Kremen, Note, *Caveat Venditor: International Application of the First Sale Doctrine*, 23 SYRACUSE J. INT'L L. & COM. 161, 162 (1997).

187. Paul Demaret, *The Metamorphoses of the GATT: From the Havana Charter to the World Trade Organization*, 34 COLUM. J. TRANSNAT'L L. 123, 168 (1995).

188. TRIPS, *supra* note 1, art. 6; Sun, *supra* note 165, at 87.

189. Caviedes, *supra* note 24, at 197.

The reality in the United States is that patent law seems to adhere to the territoriality principle.¹⁹⁰ The uncertainty created by TRIPS's failure to address exhaustion and the increasing, seemingly unstoppable, parallel imports of pharmaceuticals are now viewed by the United States as a threat to patents in the pharmaceutical industry, and many are demanding the implementation of the territoriality principle into TRIPS.¹⁹¹ With regard to trademarks¹⁹² and copyrights,¹⁹³ by contrast, the Supreme Court has restricted the ability of the United States customs to block the importation of gray market goods, and could therefore indicate potential adherence to the universality principle. Still, in the end, any such potential is counteracted by the use of unilateral and bilateral measures, such as Section 301.¹⁹⁴

D. The Use of Section 301 by the United States With Respect to Gray-Market Goods and Exhaustion

The controversies regarding exhaustion are far from over, and exhaustion has, in fact, become one of the most contested areas of intellectual property in which the United States conducts bilateral negotiations.¹⁹⁵ The United States insists on adopting the doctrine of territoriality, while many of the developing countries with which the United States is conducting its forced Section 301 negotiations would much prefer international exhaustion.¹⁹⁶

For example, in 1993, the use of Section 301 pressure by the United States caused Taiwan to amend its copyright law and restrict parallel imports under Article 87 of the Copyright Act of the Peoples Republic of China, which holds those importing goods to Taiwan to a standard that is possibly even higher than the one to which the United States

190. See *Boesch*, 133 U.S. 697; Rosemary Sweeney, Comment, *The U.S. Push for Worldwide Patent Protection for Drugs Meets the AIDS Crisis in Thailand: A Devastating Collision*, 9 PAC. RIM. L. & POL'Y J. 445, 469 (2000). But see Barrett, *supra* note 182, at 919 (arguing that the "United States judicial authority adopts a form of modified international exhaustion, rather than the territorial exhaustion rule that a number of commentators have asserted").

191. See Rein, *supra* note 134, at 384-85; Sweeney, *supra* note 190, at 453-55; Vaughan, *supra* note 48, at 106-10.

192. See *K Mart*, 486 U.S. 281.

193. *Quality King*, 523 U.S. 135.

194. Kremen, *supra* note 186, at 182-83; Sun, *supra* note 165, at 113; Sweeney, *supra* note 190, at 459.

195. Sun, *supra* note 165, at 87.

196. *Id.*

holds those importing goods into the United States.¹⁹⁷ Despite Taiwan's reluctance to adopt the amendment and despite it being a clear consequence of pressure from the United States, Senator Max Baucus, Chairman of the Senate Finance Subcommittee of International Trade, defended the use of Section 301 as a "proven market opening tool" claiming that "U.S. negotiations with offending countries have only succeeded when backed up with the threat of sanctions."¹⁹⁸

Similar pressure is used to coerce developed countries into changing their legislations as well. In the case of New Zealand, the country was placed on the Special 301 "watch list" for a 1998 move to permit parallel imports of certain products, such as videos and DVDs, with the hope of increasing the selection and reducing the prices.¹⁹⁹ New Zealand was removed from the list in 2001, but put back on in 2002 for failure to implement a proposed legislation.²⁰⁰ Only after it tightened its legislation in late 2003, significantly influenced by the pressure from the United States, was New Zealand removed from the list.²⁰¹

From 1998 until 2002, Israel was on the "priority watch list" for, among other reasons, allowing gray market pharmaceuticals.²⁰² In 2003, however, the country improved its status when it was lowered to the "watch list" after passing new legislation to improve the protection of copyrights,²⁰³ and remained on the "watch list" in 2004.²⁰⁴

197. See Soojin Kim, Comment, *In Pursuit of Profit Maximization by Restricting Parallel Imports: The U.S. Copyright Owner and Taiwan Copyright Law*, 5 PAC. RIM L. & POL'Y J. 205, 229-33 (1995).

198. *Id.* at 218 (quoting *Trade Policy: Clinton Renews Super 301 Measure; Provision Seeks Market Opening*, INT'L TRADE REP., Mar. 9, 1994, at 7, ITR database).

199. *NZ Escapes Parallel Importing Sin Bin*, NEW ZEALAND HERALD, May 3, 2000, 2000 WL 7610618; Tracy Watkins, *NZ's Parallel Importing Still of Concern to U.S.*, CHRISTCHURCH PRESS, May 2, 2002, 2002 WL 101908038. Two New Zealand reporters expressed their distinct displeasure of seeing their country on the list as follows: "This means we have joined nations such as Kazakhstan and Guatemala in being singled out as giving inadequate protection to intellectual property rights." Allan Bowie & Anthony Hosking, *Copyright Piracy Bill Should Please U.S.*, NEW ZEALAND HERALD, Jan. 14, 2003, 2003 WL 2284787.

200. *NZ Back on US Trade Watch List*, NEW ZEALAND PRESS ASSOCIATION, May 1, 2002, 2002 WL 17703988; Tracy Watkins, *Parallel Imports Annoy U.S.*, THE DOMINION, May 2, 2002, 2002 WL 18077389.

201. John Ferguson, *New Law Boosts NZ Fight Against Pirates*, BILLBOARD, Nov. 22, 2003, 2003 WL 66040245; Bowie, *supra* note 199. See <http://www.ustr.gov/reports/2003/special301.htm> (last visited Feb. 6, 2004).

202. *Regional Countries on Watchlist Between 1999-2002*, GULF NEWS, May 5, 2002, 2002 WL 5811180.

203. See <http://www.ustr.gov/reports/2003/special301-wl.htm#israel> (last visited Feb. 15, 2004).

In a striking example, in 1997, the South African Government enacted laws that permitted, among other things, the parallel importation of certain pharmaceuticals²⁰⁵ for the purpose of improving the availability of desperately needed medications.²⁰⁶ Significantly, none of the provisions conflicted with TRIPS.²⁰⁷ Supported especially by the United States, as many as forty pharmaceutical companies sued the Government of South Africa to prevent the implementation of the laws for allegedly violating TRIPS.²⁰⁸ Stating that “South Africa’s Medicines Act appears to grant the Health Minister ill defined authority to issue compulsory licenses, [and] authorize parallel imports”²⁰⁹ the USTR also placed South Africa on the Special 301 “watch list.”²¹⁰ Protests against both the United States and the pharmaceutical companies led to South Africa being removed from the “watch list” in 1999, after which the

204. See Office of the United States Trade Representative: 2004 Special 301 Report Watch List, *supra* note 125.

205. Bernard Pécoul, *Fighting for Survival: Access to Essential Medicines in Poor Countries*, 23 HARV. INT’L REV. 60 1, Oct. 1, 2001, 2001 WL 8637182. See Medicines and Related Substances Control Act 101 of 1965 after amendment by the Medicines and Related Substances Control Amendment Act (Act 90 of 1997) § 15C(b), *available at* <http://www.pharmcouncil.co.za/documents/ACT%2090%20OF%201997.pdf> (last visited Feb. 15, 2004):

The minister may prescribe conditions for the supply of more affordable medicines in certain circumstances so as to protect the health of the public, and in particular may . . . (b) prescribe the conditions on which any medicine which is identical in composition, meets the same quality standard and is intended to have the same proprietary name as that of another medicine already registered in the Republic, but which is imported by a person other than the person who is the holder of the registration certificate of the medicine already registered and which originates from any site of manufacture of the original manufacturer as approved by the council in the prescribed manner, may be imported.

Id. See also John S. James, March 5: “Global Day of Action against Drug Company Profiteering,” as *Pharmaceutical Companies Sue South Africa to Block Low-Cost Medicines*, AIDS TREATMENT NEWS, Jan. 26, 2001, *available at* <http://www.aids.org/atm/a-359-05.html> (last visited Feb. 20, 2004).

206. “The human tragedy of the global AIDS epidemic often has been compared to the 14th century plague in Europe. Of the estimated 33.4 million HIV-infected individuals around the world, about two thirds live in sub-Saharan Africa. Currently, between 20% to 26% of the population in some southern African countries is infected.” Rein, *supra* note 134, at 400 (internal citations omitted).

207. Pécoul, *supra* note 205, at 62.

208. *Id.*

209. Office of the United States Trade Representative, USTR Announces Results of Special 301 Annual Review, Apr. 30, 1999, *available at* <http://www.techlawjournal.com/intelpro/19990430s301.htm> (last visited Jan. 11, 2005).

210. *Id.*; Pécoul, *supra* note 205, at 62; Rein, *supra* note 134, at 401.

United States and South Africa reached a joint understanding.²¹¹ The pharmaceutical companies, nonetheless, continued to pursue their lawsuits until 2001 when they agreed to withdraw their complaints following strong coverage by the media and a “global public uproar.”²¹² The same year, largely as a result of South Africa’s drug legislation, the members of the WTO adopted the so-called Doha Declaration²¹³ to explain divergent interpretations of TRIPS.²¹⁴ The declaration makes clear that a WTO member, (such as the United States), is precluded by TRIPS from taking action against another WTO member (such as South Africa), if that country were to use parallel imports to supply its population with much needed affordable medication, because in an emergency situation a country like South Africa has the right to take measures to protect public health.²¹⁵ The declaration also specified that the practice would specifically be tolerated with respect to drugs used to treat HIV/AIDS, tuberculosis, and malaria.²¹⁶ The declaration leaves it up to the individual WTO

211. Joint Understanding between the Governments of South Africa and the United States of America, Sept. 17, 1999, *available at* <http://www.polity.org.za/html/govdocs/pr/1999/pr0917b.html?rebookmark=1> (last visited Jan. 11, 2005).

212. Office of the United States Trade Representative, U.S. – South Africa Understanding on Intellectual Property, Sept. 17, 1999, *available at* <http://www.ustr.gov/releases/1999/09/99-76.html> (last visited Feb. 15, 2004). In removing South Africa from the watch list, President Clinton stated in December of 1999 that the U.S. was “flexible enough” in its policies to be willing to assure that “people in the poorest countries of the world won’t have to go without the medicines they so desperately need.” *Id.* See Rein, *supra* note 134, at 402.

213. Declaration on the TRIPS Agreement and Public Health [hereinafter Doha Declaration], Nov. 14, 2001, WT/MIN(01)/DEC/2, *available at* http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.pdf (last visited Jan. 11, 2005).

214. See *id.*; James Thuo Gathii, *The Legal Status of the Doha Declaration on TRIPS and Public Health Under the Vienna Convention on the Law of Treaties*, 15 HARV. J.L. & TECH. 291, 293-99 (2002).

215. Doha Declaration, *supra* note 213, art 4. The declaration in part states that: [T]he TRIPS Agreement does not and should not prevent Members from taking measures to protect public health. Accordingly, while reiterating our commitment to the TRIPS Agreement, we affirm that the Agreement can and should be interpreted and implemented in a manner supportive of WTO Members’ right to protect public health and, in particular, to promote access to medicines for all. In this connection, we affirm the right of WTO Members to use, to the full, the provisions in the TRIPS Agreement, which provide flexibility for this purpose.

Id. See Simon Barber, *US Gives Licence to Ignore Patents*, BUS. DAY (S. AFR.), Nov. 5, 2001, 2001 WL 5968662.

216. Doha Declaration, *supra* note 213, art 5(c). The declaration makes clear that: “Each Member has the right to determine what constitutes a national emergency . . . it being understood that public health crises, including those relating to HIV/AIDS, tuberculosis, malaria and other epidemics, can represent a national emergency.” *Id.*

member country to which the situation applies to decide which approach it wishes to apply regarding exhaustion of intellectual property rights.²¹⁷ Most importantly, the individual country does have the option to choose to apply international exhaustion to the drugs in question.²¹⁸

Consequently, it appears as though the United States intends to continue to use the various forms of Section 301 to pressure and harass other countries. As demonstrated by the above examples in the areas of parallel imports, sadly, the United States appears to be prepared to “waive its big stick,” by putting its own intellectual property in front of not only other members of the WTO, but even in front severely ill human beings who need medication.

V. CONCLUSION

The frustration expressed by the rest of the world at the sight of the United States using unilateral Section 301 measures to assure greater protection for only its intellectual property rights, even after signing TRIPS, seems understandable and well-founded. The actions taken by the United States undermine established international dispute settlement mechanisms that were finally reached with TRIPS after decades of less comprehensive international agreements. As demonstrated by the example of gray market goods, the United States seems likely to continue to use this policy.

Ultimately, with regard to exhaustion, the only principle truly in accordance with the aspirations of the WTO and TRIPS is international exhaustion, and the goal of the international community should be to work toward that end. The actions taken by the United States are counterproductive, undermine TRIPS, and brings about resentment from the rest of the world by signaling to the industrialized countries that the United States is entitled to a higher standard of protection, and by coercing developing countries into agreements into which they would otherwise not enter. It would be in the best interest of both the international community, and the United States itself, for the United States to reevaluate the benefits and costs associated with the use of

217. *Id.* art. 5(d). The declaration states that: “The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions . . .” *Id.*

218. *Id.*

Section 301, which should lead the United States to conclude that the costs outweigh the benefits.

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