& GATT
New Round

Revised

Summary of the Recommendations of the Advisory Committee on Trade Negotiations' Task Force on Intellectual Property

This paper provides recommendations on the development of an approach to intellectual property (IP) protection. The development of a trade-based approach to improve IP protection abroad will not eliminate the need to continue addressing the IP issues in the existing IP Conventions and institutions and on bilateral basis. The trade approach should supplement present IP activities, leading to an increase in overall international IP protection.

Background

Intellectual Property rights - which the private sector broadly defines to encompass patents, trademarks, trade dress, copyrights, additional rights provided for mask works and trade secrets -- have become increasingly important in international trade flows in recent years. IP rights protect the innovations that are the result of extensive research and development, and artistic and intellectual creativity. In turn, innovation is becoming the foundation of the global industrial and commercial system; it needs to be encouraged if trade is to prosper. International competition in the future will be increasingly dependent both upon the "creative industries", in which the expression of an idea is the principal product or service, and

the competitive edge that new product and process technologies give to high technology and basic industries alike. With the shortening of the innovation cycle in a number of industries (e.g., electronics; computers; pharmaceuticals), and the increasing costs of innovation, recovering the costs of innovation is essential for developing the next generation of products, processes, and services that will ensure the international competitiveness of many industries.

IP rights are defined by and flow from national laws; in the United States, for example, they spring from the U.S. Constitution. The international IP regimes -- primarily the Berne Copyright Convention, and the Universal Copyright Convention for copyright and the Paris Convention for patents -- were originally developed to promote the concept of national rights and only subsequently did they require adherents to provide certain minimum rights for foreign rights holders. These conventions have been helpful in producing the level of IP protection available today.

However, losses to worldwide industry as a result of counterfeiting and patent and copyright infringement abroad have been extensive. The U.S. International Trade Commission has estimated that, for example, $6 to $8 billion of total domestic and export sales by U.S. companies and 131,000 U.S. jobs were lost in 1982 as a result of foreign product counterfeiting. In addition to

the financial loss, substandard counterfeit goods have been found in everything from drugs to heart pumps, missiles and fighter plane and helicopter parts, thereby representing a safety and health problem as well. It is estimated that the U.S. copyright industries lose over $1.3 billion annually as a result of the failure of ten key countries, (Singapore, Taiwan, Indonesia, Korea, Philippines, Malaysia, Thailand, Brazil, Egypt and Nigeria) to provide adequate and effective protection to U.S. copyrighted works and that the agrichemical industry loses $200 million annually from inadequate and ineffective patent protection worldwide.

The problem of piracy has also plagued industries applying new technologies. While a new family of semiconductor integrated circuits can cost $100 million to design, the same chips can be copied for less than $1 million. Explicit recognition of mask work rights is, therefore, critical to the encouragement of innovation and continued technological advances.

Beyond the minimum standards of protection contained in the present IP conventions, adherents are bound only to provide national treatment; that is, foreign rights holders receive treatment no less favorable than domestic rights holders. It is important to note that the conventions were never intended to be used as IP rights enforcement mechanisms for bilateral disputes and thus have no dispute settlement provisions.

At the national level, copyright, patent and trademark holders face laws that inadequately protect domestic as well as foreign IP holders both in countries that do not adhere to the IP conventions and in countries that have not adopted national legislation implementing the non-self-executing conventions. Where protection has been extended to new forms of technology -- as with semiconductor chips -- foreign countries have been slow in clearly recognizing these rights under their existing laws or in adopting new laws for their protection. Even in countries with adequate laws, IP holders face inadequate enforcement of those laws by the administrative and judicial branches of government.

The growing economic importance of intellectual property to all industries and the inadequacies of the present IP system -- both at the international and national levels -- have led the U.S. private sector to seek a trade-based response, as a supplementary tool to deal with the resultant distortion of international trade flows.

Rationale for a Trade-Based Approach for IP Protection

Inadequate protection of intellectual property worldwide is becoming a major cause of distortions to international trade flows. It is therefore important to consider bringing certain

elements of IP under the GATT in order to develop both dispute settlement procedures and enforcement mechanisms for IP currently missing from international conventions. Furthermore, under the GATT it might also be possible in the medium-term to improve existing inadquate minimum standards for such IP areas as patents. Efforts in the Paris Convention on standards of protection in recent years have focused on preventing further erosion of even the inadequate minima that currently exist. Because of the severe impact of patent infringements and the lack of patent protection for many industries worldwide, many patent industries believe that the only hope for effective multilateral action lies in the GATT.

In addition, the level of governmental protection for trade secrets should be improved. Presently there is no international consensus on the definition of trade secrets or the best approach to their protection. We could build upon the work already underway in the Food and Agricultural Organization by including one type of trade secret -- the information that innovators must provide governments on the health and safety or products in order to obtain government permission (registration) to market such products -- among the IP rights to be covered and to be protected in the next MTN.

Special problems are posed by the challenge of ensuring the adequate international protection of "mask works" fixed in

semiconductor chip products. While the United States and Japan have decided not to wait for further judicial interpretation to clarify chip protection under copyright law and to provide sui generis chip protection, there are a number of countries which believe that such mask works are protectable under existing copyright laws. We should work to ensure adequate and effective protection of mask works rights either through the application of traditional IP right laws or by additional explicit forms of protection for mask works. Because of the substantial volume of trade in semiconductors and semiconductor-based products, the adequate protection of chips should be seriously considered in a trade-based approach to IP protection.

Recognition of IP as a Trade Issue

Before agreement can be reached on the specific details of either a multilateral or bilateral trade approach, the basic concept of a trade approach to IP must be recognized and its legitimacy accepted by the IP community. Inherent in the concept is a multilateral dimension that recognizes that the lack of IP protection and enforcement is trade distorting and, thus, a proper subject for consideration in the next MTN round.

Three little-noticed references to IP protection are already found in the GATT Articles. Article XX(d) includes IP protection in the general exception to the GATT (although such action cannot

be trade distorting); Article XII includes IP limitations on balance of payments actions and Article XVIII includes such limitations on infant industry protection and balance of payment actions.

Interim Steps

While folding IP into the MTN would contribute to the legitimacy of IP as a trade issue, in the short-term, benefits would be limited, due to the long negotiating process, even in dealing with the principal commercial problem facing the IP industries: piracy and counterfeiting. In the interim, bilateral and unilateral efforts should be developed by the United States and other countries to address problems in countries that do not have adequate standards of or enforcement of IP protection.

Inclusion of IP in the MTN

The successful conclusion of Counterfeiting and IP Codes in the next MTN round would provide considerable long-term benefits in dealing with the piracy and counterfeiting problems. In this regard, we make the following recommendations on IP objectives in the upcoming MTN:

1. Type of Agreement

a) Counterfeiting Code

We recognize the extensive work already undertaken by the GATT in developing a counterfeiting code and urge the early adoption of a counterfeiting code that would supplement existing national statutes through concerted international action. The code, which would render the production of counterfeit goods economically unprofitable, would provide for cooperation among customs officials to confiscate and dispose of imported counterfeit goods at the border.

b) Development of a New Code

There should also be a development of a broader IP code similar to the NTB Codes negotiated in the Tokyo Round (e.g., Standards and Customs Valuation). An agreement could include the following:

-- At a minimum, acceptance of the copyright and patent minima presently found in the IP conventions (preferably Berne for copyright). However, there should be enhanced protection in such "patent" areas as chemical compounds, foodstuffs and new biotechnologies (man-made organisms); explicit copyright protection for computer software and for literary works delivered via new technologies; explicit protection for semiconductor mask work designs as effective as that provided under U.S. law; and an

agreed-upon minimum period of exclusive use of premarket registration information for original registrants. An agreement should oppose unduly short patent terms and compulsory licensing, except for narrow national security purposes with reasonable compensation.

-- Recognition that the World Intellectual Property Organization (WIPO), the Berne and Paris Convention Secretariat, would continue to have the major role in setting whatever minima are agreed upon. (While this would not stop the GATT from acquiring an IP expertise, it would be consonant with past GATT practice of working together with the international technical organizations).

-- Pledge by signatories to enforce the minima within their countries and at their borders. The latter would enhance the border aspects of the Counterfeiting Code.

-- Binding of the signatories to certain rules of behavior, which could include transparency of rule setting; adequate provisions for notice; pledges not to use IP laws to distort international trade or to rapidly acquire technology without proper permission and due and reasonable compensation.

-- Dispute settlement procedures that would draw upon technical expertise of WIPO and its IP experts as well as trade dispute settlement procedures under the GATT to resolve bilateral disputes.

2. Nature of Negotiations

The conduct of the negotiations will be an important element in not only the legitimization of IP as a trade issue but also in the reinforcement of the close link between the bilateral and multilateral aspects of the trade approach. It may be necessary to pursue the negotiations on a plurilateral basis, in the event that opposition from some countries materializes. Initial negotiations on a multilateral basis might attract the interest of certain developing countries which may have increased the level of their IP protection, as a result of bilateral approaches now being made, to a level sufficient to meet the provisions of a code. The "code" should not be made hostage to narrow interests of certain LDCs, which, in the main, are opposed to any international IP effort that would limit their infringing activities. Plurilateral negotiations among like-minded developed and some developing countries that have an economic interest in IP protection would have the added benefit of keeping the code open to eventual adherence by many developing countries, later either because the development of their IP industries has given them a

vested interest in protecting, rather than exploiting, IP or because their level of protection has been sufficiently raised through bilateral efforts.

3. Relationship of GATT to WIPO

The negotiation of the Standards and Customs Valuation Non-Tariff Barrier Codes in the Tokyo Round and their subsequent operation involved, the close cooperation between the Secretariats of the GATT and of the relevant international technical organizations. Such a relationship must be duplicated between GATT and WIPO, where the current international IP expertise resides. We should thus encourage a rapprochement between the WIPO and GATT Secretariats.