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U.S. GOALS FOR PATENT PROTECTION IN THE GATT TRADE TALKS

INTRODUCTION

"The patent system has added the fuel of interest to the fire of genius."
Abraham Lincoln

"A country without a patent office and good patent laws is just a crab and can't travel any way but sideways and backwards."
Mark Twain

The past few decades have seen the United States move from an economy propelled by traditional manufacturing to one in which services and high technology are pre-eminent. This shift underscores the degree to which specialized knowledge and ideas have become the basis for America's comparative advantage in trade. For America to keep its enviable lead in high technology manufacturing and hi-tech services, the U.S. vigorously must defend the ideas and inventions produced by its citizens from foreign commercial theft.

Since 1790 the U.S. has protected its innovative ideas from being copied by giving an inventor exclusive property rights to his new ideas by granting patents.[1] But patent protection and other forms of intellectual property rights such as copyrights and trademarks frequently are violated in foreign countries, particularly in the Third World. A

1 The U.S. Constitution also provides for copyright protection in Article I, section 8, clause 8, the same clause that provides patent protection. For the sake of brevity, this study will focus on the need for additional patent protection in the current trade talks. Many of the arguments made with respect to patents also would be applicable to copyrights.

1988 report by the U.S. International Trade Commission (ITC), a U.S. government agency that investigates and reports on international trade issues, estimated that in 1986 worldwide losses to American industry due to infringement upon all forms of American intellectual property were between $43 billion and $61 billion.[2]

Rewarding Risk. Patents are critical in maintaining the cycle of scientific discovery, practical engineering, and production. Without the potential for exclusive financial reward that patents provide there would be little reason for firms and individuals to expend the energy, invest the capital, and take the risks required of those who wish to discover new products and bring them to market. Although many developing nations are among the worst pirates of patents and other forms of intellectual property, they would prosper from a strong regime protecting patents because these protections promote invention and industriousness and because they promote closer commercial ties with foreigners who will see their willingness to safeguard intellectual property as a sign of commercial sophistication and trustworthiness. The U.S. was not a developed country in 1790 when it enacted its first patent law, yet it prospered greatly due to the property rights afforded to inventors for their ideas.

The total research, development, and safety testing costs for a single new pharmaceutical product exceed $230 million on average. With the average time it takes to bring a new drug to market now exceeding ten years, the absence of patent protection would permit other firms to copy and reproduce the drugs at a fraction of the cost, undercutting years of research and development. Were there no patent protection, the result would not be lower priced goods; the result would be far fewer new goods, in this case new medicines.

The current round of multilateral trade talks, the Uruguay Round of the General Agreement on Tariffs and Trade (GATT), is attempting to address the issue of patents, copyrights, and other intellectual property rights. The White House should instruct the U.S. trade negotiators to push GATT to offer new intellectual property protection. The Congress, meanwhile, should declare that it will not ratify a new GATT accord without significant gains on intellectual property. U.S. negotiators should not make concessions at GATT in the hope that they can be won back at the World Intellectual Property Organization (WIPO), a feckless United Nations body based in Geneva. WIPO often embraces the economic ideas of the so-called Group of 77 (G-77), a bloc of Third World countries that advocates state domination of the economy.

In instructing the U.S. negotiators, the White House should insist that:

- **The GATT agreement should grant patent protection for products and processes for at least twenty years.** This is the accepted standard period for patents to extend protection.

2 United States International Trade Commission, "Foreign Protection of Intellectual Property Rights and the Effect on U.S. Industry and Trade," Report to the United States Trade Representative, Investigation No. 332-245, Under Section 332(g) of the Tariff Act of 1930, Washington, D.C., February 1988, p. H-3.

- **The GATT agreement should establish reasonable "working requirements," and imports must be allowed to meet these requirements.** Patents are given by many countries with the expectation that they will lead to the sale of the patented products in that country. A patent is "worked" when the patented good is sold. "Working requirements" thus are conditions specifying that the good must be sold domestically while the patent remains in effect. Some countries go further and impose working requirements to force firms to manufacture or assemble the product in the country. In such cases, imports would not satisfy the working requirement. This is not reasonable. To satisfy the working requirement, patent holders must be allowed to import the good. There should be no discrimination in favor of domestic production in which economies of scale are often not available.

- **The GATT agreement should contain strict restraints on compulsory licensing arrangements, in which a government (usually foreign) allows a producer other than the patent holder to produce the patented good or to use a patented process.** The GATT should require that such licensing be "non-exclusive," meaning that the patent holder always should be allowed to produce the product even if a compulsory license is granted to another firm. The compulsory licensing arrangements also should be "non-discriminatory" toward patentable subject matter, meaning that all industries should be treated similarly.

- **All nations that are party to an agreement on patents should be required to develop effective legal systems to enforce the agreement.** The international agreements should put the force of domestic law behind these treaties.

- **The GATT agreement should not allow "parallel importing."** "Parallel importing" is a form of arbitrage that buys cheaply in one market, ships the good to a higher-priced market, and sells for the higher price. Normally, arbitraging is an important way that prices in various markets keep prices aligned. In the case of goods under exclusive franchise, however, "parallel importation" undermines patent protection by permitting goods going to other markets, where pricing conditions may differ, to be returned and sold in the original market, thereby undercutting the prices of the patent holder.

- **The GATT agreement should require a transition period of no more than two years for countries to adopt adequate patent laws.** This provision will prevent countries from delaying their acceptance of the new standards for patent protection. Of course, the least developed countries should be allowed one or two years longer to adjust to the technical demands of enforcing patent protection, such as the establishment and maintenance of patent offices.

- **A GATT agreement should provide "pipeline" protection.** Such provisions safeguard products that in effect were in the pipeline—patented in one country prior to the enactment of an adequate patent law in another one. Once the newcomer to effective patent enforcement establishes its law, goods patented elsewhere but never marketed in that country will receive protection as if the new law always had been in effect.

- ♦ ♦ **The U.S. should seek a strong agreement safeguarding intellectual property, rather than dilute the terms of protection to gain a universal agreement on intellectual property accepted by all GATT members.** An agreement that offers strong intellectual property protection but which may only be ratified in the short term by the fifty most important commercial nations is better than a watered-down agreement ratified by a greater number of GATT members.

- ♦ ♦ **The U.S. should make its patent system conform to the basic system used by the rest of the world.** Called "harmonizing" the patent system, this will require that America adopt a "first to file" system in which patents are given to the first *bona fide* applicant to file. Of course, such an approach should include adequate protection against theft or other abuses that might permit a dishonest party to file first. The U.S. would have to abandon its "first to invent" method, which allows challenges to the first-filers by those who claimed to have conceived the idea previously. The American system, in its practice, is biased against the patent applications of foreigners and should be abandoned.

THE GATT NEGOTIATIONS

When the U.S. Congress approved a two-year extension of the President's fast track negotiating authority this May, it provided an opportunity for the world's trading countries to complete relatively quickly the negotiations at the General Agreement on Tariffs and Trade that convened in Punta del Este, Uruguay, in 1986. GATT is a multilateral treaty that has increased international trade by reducing tariffs and non-tariff barriers to international trade.

Since the first GATT agreement of October 30, 1947, there have been seven completed rounds of trade negotiations. The Uruguay round is the eighth. The most noted rounds have been: the Dillon Round of 1960-1961, which adjusted the international trading system to the creation of the European Economic Community; the Kennedy Round, completed in June 1967, which reduced tariffs 50 percent on a broad range of products[3]; and the Tokyo Round, completed in 1979, which established rules of conduct (codes) in such non-tariff areas as trade subsidies, technical barriers to trade, import licensing procedures, anti-dumping actions, and government procurement policies.

Fast track authority permits George Bush to negotiate a trade agreement until May 1993 and submit it to the Congress for a yes-no vote on the entire measure. The House and the Senate must either pass the agreement or reject it; neither House can amend the agreement.

The GATT has four fundamental features. **First,** it requires contracting nations to practice non-discrimination in trade. All nations are bound by the most-favored-nation (MFN) clause, which requires each member to extend to other GATT members treatment that is equal to that which is accorded to its most favored trading partner in a spe-

3 Louis Henkin, Richard Crawford Pugh, Oscar Schachter, and Hans Smit, eds., *International Law* (St. Paul, Minn.: West Publishing, Co., 1987), p. 1166.

cific good or commodity. Consequently, tariff reductions for one country automatically are extended to all GATT parties. The GATT framework allows special exceptions concerning MFN for customs unions like the European Community and for free trade areas like that which exists between the U.S. and Canada.[4]

Second, it specifies that the only protection for a member state's domestic industries can be through tariffs. Import quotas are generally prohibited. Tariffs are deemed more acceptable because they are public, recognizable, and thus more easily negotiable.

Third, it requires that imported goods receive the same treatment given to domestically produced goods in the home market. Restrictions and regulations made applicable to the imported goods must apply also to the domestically produced goods.

Fourth, it allows a member state to challenge another member state's trading practices when they appear to violate GATT rules. Disputes are settled by an *ad hoc* panel of three to five individuals agreed to by the parties. This arbitration panel submits a written opinion about the dispute. If the GATT Council finds that there has been a violation of international law, it will call for compliance. The case will be kept on the agenda of the Council until the issue is settled. Until recently the power to authorize retaliation almost never has been sought.[5] The problem with GATT dispute resolution is that it is too heavily influenced by procedures that require consensus. The moral authority of the GATT, to stretch a term, has served well in creating a desire to comply with GATT rulings.

The current and eighth round of negotiations, the Uruguay Round, are the most comprehensive multilateral trade talks ever. Many issues in this round are being considered by the GATT for the first time. These include foreign investment, the protection of intellectual property, and trade in services. One of the fifteen negotiating groups established to discuss these issues deals with the protection of intellectual property rights. It is referred to as the Negotiating Group on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods. This is abbreviated as the Negotiating Group on TRIPS.

The TRIPS negotiating group must resolve the competing desires to create an economic environment in which there is unimpeded diffusion of technology and an environment that rewards those inventors, entrepreneurs, and writers who seek compensation for their labor. According to Keith Maskus, professor of economics at the University of Colorado, there is a clear difference of opinion over the issue of giving exclusive property rights over ideas.[6] Technology-exporting countries like the U.S. and Japan see this issue very differently from technology-importing countries like Brazil, India, and Thailand. It may never be possible to obtain a TRIPS agreement signed by

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4 "GATT and the International Trading System," *U.S. Department of State Dispatch*, July 22, 1991, p. 534.

5 Robert E. Hudec, "Dispute Settlement," in Jeffrey J. Schott, ed., *Completing the Uruguay Round: A Results-Oriented Approach to the GATT Trade Negotiations* (Washington, D.C.: Institute for International Economics, 1990), p. 181.

6 Keith E. Maskus, "Intellectual Property," in *ibid.*, p. 165.

all members of the GATT. Yet it should be possible to find enough technology-exporters and technology-importers to reach a middle ground.

THE DEVELOPMENT OF UNITED STATES PATENT LAW

A major milestone in patent law was the passage of the Statute of Monopolies in England in 1623. This ended the most damaging commercial monopolies, which impeded "free trade and competition in staples and commodities."[7]

This English common law hostility toward monopolies was carried to the British colonies in North America, where it exerted an even more powerful influence. It was recognized in the 1770s that patents granted to promote invention could lead to the discovery of new areas of technical knowledge that would benefit the entire community. By the time of the American Revolution all thirteen colonies had granted patents, and patent procedures subsequently became well established in some states under the Articles of Confederation.[8]

Patent Law was considered important enough in post-colonial America that the Constitutional Convention of 1787 gave the federal government the power to protect certain types of intellectual property for limited periods of time. States Article I of the U.S. Constitution:

> The Congress shall have power...To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries.[9]

Congress enacted the first American patent law in 1790, and made major revisions of this "Patent Act" in 1793, 1836, and 1952. The 1836 act established the Patent Office, which "has been vested with the authority to examine patents and determine at the outset whether a patent application satisfies the requirements of the statute."[10] Prior to the 1836 law no administrative body existed for examining the validity of patent claims. The Patent Act may be found in the United States Code under Title 35.

THE NEED FOR AN AIRTIGHT GATT AGREEMENT

The U.S. should not sign a GATT agreement on patents unless it affords the highest level of protection against infringement. The reason: Once signed and then approved by the Congress, a multilateral arrangement like GATT will supersede American laws

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7 Arthur R. Miller and Michael H. Davis, *Intellectual Property: Patents, Trademarks, and Copyright* (St. Paul, Minn.: 1990), 2nd ed., p. 5.

8 *Ibid.*, pp. 6-7.

9 U.S. Constitution, Article I, sec. 8, clause 8. According to Miller and Davis, because trademark protection comes under the commerce clause, its protections are much less solid than are those afforded to patents and copyrights which receive constitutional protection.

10 Miller and Davis, *op. cit.*, p. 9.

that provide for selective retaliation against nations that are violators of American intellectual property rights.

The U.S. Congress has given the President the power to single out nations that systematically infringe on U.S. patent protection and retaliate against them. The 1988 Trade Act, which amended the Tariff Act of 1930, "provides for a systematic mechanism designed to ensure that U.S. trading partners are providing adequate and effective protection of intellectual property."[11] The general provisions of the 1988 law are known as Super 301 and can be found in Sections 301 through 310 of the amended Tariff Act of 1930.[12] The specific provision protecting intellectual property is Section 182, which is referred to as Special 301.

Special 301 is a useful weapon in the American arsenal against nations that steal intellectual property. This law requires the U.S. Trade Representative (USTR) to identify annually countries that "deny adequate and effective protection of intellectual property rights or deny fair and equitable market access to U.S. persons that rely on intellectual property." Then the USTR may cull from that list "priority countries" that are the most egregious violators of intellectual property rights. Within thirty days of this, the USTR must initiate a Section 301 investigation of each "priority country" and recommend action within six months of initiation, unless it becomes apparent to the President that the initiation of the investigation would harm larger U.S. national interests such as national security concerns.[13]

What Is Intellectual Property?

Patents. Patents are granted for any new and useful improvements in either products or processes. Patents have been granted for living plants and for ornamental designs. At present, the burgeoning field of biotechnology is presenting problems with the issue of patenting living organisms and sections of human genetic code. The most valuable patent ever granted was to Alexander Graham Bell for the telephone. Currently, the Intel Corporation holds the patent for the microprocessors used in IBM-compatible personal computers.

Copyrights. Copyrights protect original expressions of ideas that are literary, commercial, or artistic. Articles, books, choreographic works, computer software, movies, musical works, sound recordings, and television programs can be copyrighted.

Trademarks. Trademarks give legal protection to the symbols used by producers to distinguish their goods from those of their competitors. Trademarks enhance the ability of consumers to purchase the goods they desire. Examples of trademarks are Apple Computer's rainbow colored apple, the blue IBM logo, and the cursively written name of Coca Cola.

Trade Secrets. Private companies often find it necessary to protect certain information that could benefit other companies. Trade secrets usually are protected by contractual arrangements and are used largely for ideas or inventions too sensitive to be patented, since patents require disclosure of the creative product or idea to the government granting the patent and then to the public. There is no international agreement covering trade secrets. An example of a trade secret is the formula for Coca Cola — information of the greatest value that is guarded with the tightest security.

Heritage InfoChart

11 Mayer, Brown & Platt (attorneys at law), "A Practical Business and Legal Guide to the Omnibus Trade and Competitiveness Act of 1988 (Washington, D.C.: 1988), p. 113.

12 Ronald A. Cass, "Velvet Fist in an Iron Glove: The Omnibus Trade and Competitiveness Act of 1988," *Regulation*, Winter 1991, p. 52.

13 Mayer, Brown & Platt, *op. cit.*, p. 113.

If intellectual property rights are deemed by the USTR to have been abused by an investigated country, the USTR then is required to enter into negotiations with that country to resolve the problem. If no progress is made in direct talks, then retaliatory measures like selective tariffs may be imposed against the offending nation by the U.S. government.

Mexican Success. One example of the successful use of Special 301 occurred after the U.S. placed Mexico on the "priority watch list" in May 1989. The prospect of being compared to India and other violators of intellectual property rights spurred Mexican officials to strengthen protections. In January 1990, USTR Carla Hills removed Mexico from the trade list after that government published a plan that outlined the steps Mexico would take to update its patent laws. In 1991 Mexico enacted a vastly improved law to protect intellectual property.

This source of U.S. leverage in bilateral negotiations on intellectual property rights would be lost if the U.S. acceded to a GATT provision on intellectual property, because GATT supersedes American law. If the protection afforded to patents by the new GATT agreement is stringent, then losing bilateral leverage would be a reasonable trade-off. In this case, the U.S. would have made the protection of patents, copyrights, and trademarks an important part of the international agreements on trade and tariffs. If, however, GATT protection for patents is weak, then the U.S. would have sacrificed the bargaining leverage derived from Special 301 without receiving adequate compensation.

AN AMERICAN NEGOTIATING AGENDA AT GATT

Given the many ways in which patents can be undermined, effective protection of patents requires that the TRIPS negotiations at GATT proceed on several fronts.

♦♦ **U.S. trade negotiators should focus on GATT as the proper forum for reaching an intellectual property agreement.**

Concessions should not be made at GATT in the hope that they can be won back at the United Nations' World Intellectual Property Organization, based in Geneva. WIPO's weakness is typical to the U.N. system: too many nations have voting power greater than their economic size would justify. Consequently, a WIPO agreement on patents can be shaped or vetoed by groups of states that have a small role in international trade but who can outvote the major trading nations. WIPO's value is in settling technical issues such as the definition of what can be patented. It is not an instrument, however, for protecting intellectual property.

GATT is the only set of negotiations in which all trade issues are simultaneously on the table. This is an advantage because it creates opportunities for trade-offs. Example: A set of trade talks that focused only on patent protection could not produce an agreement since developing nations, like Argentina, would not subject themselves to tougher patent laws. In GATT, however, these nations can get advantages in other areas by making concessions on intellectual property. Argentina, for instance, might receive concessions from the European Community on agricultural goods, which Argentina exports, in exchange for concessions on patents. Without such a wide-ranging

basis for negotiations, negotiating a comprehensive trade agreement would be impossible. Therefore, the attention and energy of the U.S. government must be focused on GATT.

This should not preclude the U.S. pursuing strong patent protection in negotiations like the North American Free Trade Agreement (NAFTA) in case the GATT round fails. In the case of NAFTA, Mexico recently improved its patent laws, but Canada lags behind the other major industrial countries and Mexico in protecting patents.

♦♦ **The GATT agreement should grant patent protection for products and processes for at least twenty years.**

This is the accepted standard period for patent protection. European, Japanese, and now Mexican products are protected twenty years from the date of filing for the patent. In the U.S., patents provide protection for seventeen years after the date on which the patent is granted. Since the average time required for the processing of a patent around the world is two to three years from the date of filing, the Japanese-European date and the American date are essentially equivalent. There thus should be little difficulty obtaining GATT agreement on this provision. Some products like pharmaceuticals require lengthy periods of regulatory processing. For this reason, the U.S., Italy, and Japan have extended patent protection in this area beyond twenty years. Consequently, the GATT should not set a ceiling of twenty years but make that the minimum period of protection.

♦♦ **The GATT agreement should establish reasonable "working requirements," and imports must be allowed to meet these requirements.**

A patent is a property right in which a government grants exclusive rights to produce a product to an inventing person or organization. When an application for the patent is filed, it is made public, thus revealing the novelty of the product or process for which a patent is being sought. This advances technological knowledge in the manufacturing and scientific communities.

Patents also may be granted on the premise that they will be "worked" or used. For example, if General Motors is given a patent in Germany for a new type of automobile headlight, Germany may require General Motors to sell the headlight, thereby "working" the patent. The U.S. has no working requirements. American patent law relies on competitive innovation to prevent abuse of the monopoly privilege. It is conceivable that the holder of a patent for one good might not want to sell that good if its sale could undercut the market position of more profitable good that the firm sells.

Typically, many countries require that local manufacturing take place to meet a working test. If the product for which the patent is granted is not locally manufactured within a specified period (the period of time varies per country) then a "compulsory license" is granted to another company to work the patent. For most kinds of goods a period of three to five years would be adequate for the working requirement, but for some industries this period would be too short. In the pharmaceutical industry, for example, a period of ten to twelve years is required to test a drug's safety, so a longer period is needed.

It must be permissible to import a patented product as a means of satisfying the working requirements. Spain and some other countries require that a product be manufactured in that country for it to satisfy this condition. This is in reality a protectionist policy. Requirements that a good be manufactured in every country in which it is sold creates tremendous economic inefficiencies, destroying economies of scale and increasing the average cost of the product. If a manufacturer is forced to operate his plants at inefficient levels, the cost of the product will increase for consumers.

When countries impose working requirements, therefore, they must allow these requirements to be fulfilled by imported goods as well as by those manufactured in the country.

♦♦ **The GATT agreement should contain strict restraints on compulsory licensing arrangements, in which a government (usually foreign) allows a producer other than the patent holder to produce the patented good or to use a patented process.**

Such licensing must be "non-exclusive" and "non-discriminatory" toward subject matter that is able to be patented. "Non-exclusive" means that holder of the patent should always be permitted to sell the product. "Non-discriminatory" means that there should be no discrimination against foreign patent holders or against patent holders in specific industrial sectors.

According to the 1883 Paris Convention for the Protection of Industrial Property, the first major international intellectual property agreement: "Each country...shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work."[14] Under the Paris Convention a government is able to protect its people from abuses that might arise from granting patents, but the wording of the provision quoted above is vague and open-ended.

Consequently, abuses of the compulsory licensing provision are possible. Unscrupulous governments have passed on information about patented products or processes to domestic producers with a compulsory license, and then refused the company with the original patent the right to sell the good in that country's market. To make matters worse, the domestic producer with the compulsory license often will export the product at a considerable price advantage because that firm did not have to bear the costs of research and development.

The GATT agreement must specify when compulsory licensing is permissible. GATT also must enumerate restraints on compulsory licensing. Compulsory licensing should be minimized; the capacity to issue these licenses is a temptation to abuse the privilege.

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14 Paris Convention, Article 5.A.2. The Paris Convention was first signed on March 20, 1883. It has been revised on a number of occasions, most recently in 1979. Ninety-nine nations are party to the Paris Convention.

Compulsory licenses should be permissible only: 1) if the holder of a patent fails to "work" the patent; 2) if customers are exploited by "tie-in sales" provisions which require the purchaser of the patented good, over which the producer has a monopoly, to buy other goods from the patent holder that the consumer does not want, making this in effect an act of extortion; and 3) if a national emergency arises and additional manufacturers of a patented product are needed quickly, as during an epidemic requiring massive quantities of vaccines that may require additional manufacturers.

The compulsory licenses further should be "non-exclusive" so that the holder of the patent always would be allowed to market the licensed good. If a compulsory license is granted to a manufacturer who does not hold the patent, therefore, the patent holder must not be precluded from selling or importing the product. Under GATT compulsory licenses also should be "non-discriminatory" in two ways. First, there should be no distinction made between local and foreign origins of the good. A patent holder foreign to a market should not be denied the right to sell its product in that market and reap the benefits of the technological innovation. Second, there should be no discrimination intended to help domestic manufacturing sectors. Governments should not be able to protect domestic companies that use technologies made available in the patent process from competition with the patent holder.

Goods that are manufactured under compulsory licensing arrangements should not be permitted to be exported. Much of the cost of producing an innovative product resides in costs related to research and development. A good produced under compulsory licensing does not bear these costs because the holder of the patent was required to reveal the nature of its technological innovation to receive the patent. Therefore, the goods produced under compulsory licensing arrangements should not be permitted to undermine the competitive position of the patent holder's products internationally.

♦♦ All nations that are party to an agreement on patents should be required to develop effective legal systems to enforce the agreement.

There must be an adequate domestic legal system in which actions can be taken to stop patent infringements and seek recompense when they occur. There also should be an effective customs agency in each nation that can prevent the illegal importation of goods that infringe the right of the patent holder to make, use, or sell the patented good or process.

♦♦ The GATT agreement should not allow "parallel importing."

Parallel importing occurs: 1) when goods produced to be sold in foreign markets at a lower price than in the home market are imported back into the country of original manufacture; 2) when unauthorized imports (those produced with stolen intellectual property) are sold in a market to compete with goods produced domestically under legitimate license; or 3) when unauthorized imports into a foreign nation are allowed to compete with authorized imports into that nation.[15] Such parallel importing creates unfair market conditions.

15 A. Duncan and T. Jackson, "Parallel Importing: An Economic Perspective," Discussion paper, August 13, 1991.

In the U.S., once the patent holder sells its product it loses control of the pricing of that good. It is said that its control has been exhausted by the first sale. In the case of domestic transactions, the first sale doctrine is fine. For international sales, however, it is not adequate because "first sale" would allow exporters to take a good slated for export and divert it back to the domestic market. The allowance of such practices would undermine all patent protection because the pricing of goods bound for foreign markets reflects economic conditions abroad that may differ greatly from conditions in the domestic market. A nation that allowed parallel importing effectively would provide no patent protection.

♦♦ **The GATT agreement should require a transition period of no more than two years for countries to adopt adequate patent laws.**

Once an agreement on patents is reached at the GATT and GATT members ratify the intellectual property provisions, the new rules should come into effect as quickly as possible. One to two years should be sufficient for the signatories to bring their domestic policies into conformity with the international consensus. Less developed nations might need a bit longer to muster the technical expertise required to establish patent offices and to enforce the international agreement.

♦♦ **A GATT agreement should provide "pipeline" protection.**

Pipeline provisions safeguard products that were patented in one country prior to the enactment of a new, adequate patent law in another country. Once the newcomer nation to effective patent enforcement establishes its law, goods patented elsewhere but never marketed in that country will receive protection as if the new law always had been in effect. Patent holders benefit because their goods receive protection in another country for the remainder of the life of the patent. The country affording the protection benefits because it does not have to await new inventions and subsequent patent applications to begin offering patent protection. As a result, companies will begin to sell and manufacture their patented protections in this new business environment that protects intellectual property rights.

A hypothetical case illustrates the pipeline issue. Take Mexico, which this year passed an excellent law protecting patents, as an example. The Mexican law grants a standard twenty years' protection for the patent from the date of filing. Assume an American company sought a patent in the U.S. for a new microprocessor in 1985 and obtained the American patent. Assume also that the microprocessor was never marketed in Mexico in any manner, either by the designer or by a counterfeiter. Under pipeline protection, as soon as Mexico enacted its new twenty-year patent protection law, Mexican patent protection would cover the microprocessor as if it had been patented in Mexico in 1985. As such, the microprocessor would be protected in Mexico until 2005, just as it would be in the U.S. This is important because even products patented elsewhere before the enactment of the improved Mexican law can now receive protection—the benefits will not be restricted to new inventions only. Mexico will not have to wait for new inventions to reap the benefits of providing a commercial environment that is more friendly to the holders of intellectual property.

♦♦ **The U.S. should seek a strong agreement safeguarding intellectual property, rather than dilute the terms of protection to gain a universal agreement on intellectual property accepted by all GATT members.**

The U.S. should seek an agreement that offers strong intellectual property protection even if only the fifty most important commercial nations, with some possible exceptions, ratify the agreement. U.S. willingness to accept a non-universal agreement will prevent an intellectual property agreement from being subject to the vetos of nations like China, Egypt, and India, and other nations with inadequate intellectual property protection.

The GATT agreement concluded in the 1970s during the Tokyo Round contains various codes that were not ratified by all nations but which nevertheless serve as benchmarks for reducing barriers in specific trading areas. The anti-dumping code, designed to prohibit the sale of goods at prices below cost of production, is the most prominent of these agreements. There is an advantage in pursuing a code strategy. A code can establish the fact that owners of intellectual property deserve international protection. Those nations that agree to the code would be subject to the GATT's enforcement mechanisms. The vast majority of important trading nations would be certain to support an intellectual property code, particularly if it is endorsed by commercial titans like the U.S., the European Community, and Japan. Nations that remain outside the code still would be subject to bilateral trade sanctions. For the U.S., this means that the Special 301 provisions could be triggered. Because the GATT agreement supersedes American domestic law, nations that did not sign a code on intellectual property still would be subject to U.S. law when they allowed their citizens to pirate American intellectual property.

♦♦ **The U.S. should make its patent system conform to the basic system used by the rest of the world.**

America, the nation with the oldest patent system in the world, follows a "first-to-invent" system, not the "first-to-file" system used by most other countries. Under American law acts of invention that predate someone else's filing for the patent can be used to establish a claim to the patent. If two inventors seek a U.S. patent for a particular invention, therefore, "the first to conceive generally has priority to patent protection." There are some exceptions to this. If the first to conceive of the idea does not seek the patent with "due diligence," the patent can be denied.

Proving who was the first to conceive of an innovation can involve costly legal discovery actions. Challenges against the priority of a particular patent claim in legal actions are known as "interference procedures." Such interference procedures have the potential to discriminate against foreign applicants. In fact, U.S. law makes it difficult for a foreigner to prove his claim to a patent.[16] Activities that might prove a claim of first conceptualization of the novel idea but which did not take place in the U.S. are not admissible in the interference process. As a result, foreign applicants are allowed

16 35 USC § 104.

to submit fewer types of evidence than domestic applicants to support their claims to a patent.

Minimal Impact. Although the actual detriment that occurs to the foreign patent applicant from this discrimination is negligible, the negotiating damage in trade talks is significant. The U.S. Patent Office recently examined a large number of cases in which there was potential for discrimination against foreign applicants. It discovered that actual discrimination rarely was a factor in awarding a patent. Because the filing date for the patent in the inventor's home country is *bona fide* evidence, and because most inventors are large organizations with some international reach, patents are usually sought simultaneously around the world. Consequently, the discriminatory impact of this law is minimal.

This fact, however, does not stop other nations from pointing to the U.S. law to make negotiating points and to put the U.S. on the defensive at the GATT intellectual property negotiations. The European Community has been aggressive in trying to wring concessions on intellectual property out of the U.S. as a price for allowing the U.S. to keep its first-to-invent criteria for awarding patents.

This is a price that the U.S. should not pay. Instead, the U.S. should abandon its first-to-invent criteria and adopt first-to-file criteria. The legal fees associated with this method for obtaining a patent will be less costly, thereby lowering the costs of production. First-to-file also will reduce uncertainty among entrepreneurs. They will know that once their priority in filing is established that no other claimant later can wrest away their patent. The U.S. should seek harmonization by adopting the first-to-file system in the TRIPS negotiations at GATT, and also at WIPO, where useful work is being done to create uniform rules for patent protection. Of course, such an approach should include adequate protection against theft or other abuses that might permit a dishonest party to file first.

CONCLUSION

The protection of American patents is vital to American economic health, for America possesses a comparative advantage in trade related to technology and innovation. The costs of research, development, and new production often are tremendous. Other nations should not be allowed to benefit from the inventions of Americans without compensating those who took the risks to develop that knowledge.

The race to acquire new technology and the derivative products is becoming increasingly rapid. For the U.S. to keep its front-runner position, the U.S. must maintain a solid base of technology that cannot be stolen. As such, any agreement on intellectual property to emerge from the Uruguay Round must provide airtight protection for patents, copyrights, and trademarks. A mediocre agreement will damage American interests because the new GATT agreement will supersede American laws like Special 301 that provide the bilateral means to retaliate against nations that steal U.S. intellectual property. A universal GATT agreement on intellectual property protection therefore should not be reached by diluting the strength of that protection.

Universal Benefits. A GATT agreement would provide worldwide norms concerning the protection of intellectual property that would benefit technology-exporting nations like the U.S. and Japan, but it also would benefit developing countries as well. They would be forced to accept, at some level, the traditional notion of property rights, which would extend to their own citizen-entrepreneurs protections for innovation that might not have been otherwise available to them. Additionally, in exchange for concessions on intellectual property, developing nations will pocket concessions in industries in which they possess comparative advantages, such as agriculture and textiles.

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