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Frank J. Garcia

PROTECTION OF INTELLECTUAL PROPERTY RIGHTS IN THE NORTH AMERICAN FREE TRADE AGREEMENT: A SUCCESSFUL CASE OF REGIONAL TRADE REGULATION

Frank J. Garcia*

INTRODUCTION

The North American Free Trade Agreement (NAFTA)[1] is intended to cover almost every aspect of trade between the United States, Mexico and Canada (the Parties). One significant trade "barrier" or unfair trade practice addressed by NAFTA is the international piracy of intellectual property (IP) rights.[2]

Regional trade agreements such as NAFTA offer one form of international protection against piracy, complementing the protection offered under domestic laws and existing multilateral IP conventions. The increased use of regional trade agreements,[3] however, has led to a con-

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* Assistant Professor, Florida State University College of Law. J.D., *cum laude*, University of Michigan Law School, 1989. This article was prepared while the author was an associate with Stoel Rives Boley Jones & Grey, in Portland, Oregon. The author would like to thank the fine library staff of that firm, and in particular Ms. Kari Smith, for research assistance in connection with this Article.

1. North American Free Trade Agreement, July, 1992, 31 I.L.M. 997 (1992), *available in* LEXIS, Genfed library, Extra file [hereinafter NAFTA].

2. For the purposes of this Article, "intellectual property" includes patents, trade and service marks, copyrights and trade secrets. A patent is a right to exclude others from making, using or selling an invention without the patentholder's permission. *See* BLACK'S LAW DICTIONARY 1125-26 (6th ed. 1990). A trademark is a name, word, symbol or device identifying a business as a source of goods. *See id.* at 1493-94. A service mark is the same type of symbol identifying a source of services. *See id.* at 1369. A copyright is a protection of the tangible expression of ideas, not the function of the ideas. *See id.* at 336-37. Trade secrets are proprietary technical information used in industry and commerce. *See id.* at 1494.

3. Norman Fieleke, an economist at the Federal Reserve Bank of Boston, counts 23 trading pacts currently in effect around the world, with a total of 119

cern that the multilateral trade regulation system based on the General Agreement on Tariffs and Trade (GATT) is in danger of breaking down.[4] This Article argues that regional agreements such as NAFTA can be uniquely effective in strengthening transboundary IP protection and can play a constructive role in the trade regulation system. This is particularly so given the delay in concluding the current Uruguay Round of GATT negotiations, which includes a draft code on IP protection.

After briefly outlining the problem of piracy and existing protection mechanisms, this Article will discuss the NAFTA IP chapter, emphasizing areas of improvement over current levels of protection. That discussion is prefaced by a review of Mexico's recently overhauled IP system and a brief discussion of specific shortcomings in Canadian IP law. NAFTA offers significant improvements over the level of effective IP protection available under the Parties' domestic laws, both in its specific provisions and by linking IP protection to a comprehensive package of trade benefits and obligations. Moreover, NAFTA's approach is consistent with GATT, superior in certain respects to the draft GATT IP code, and complementary to other multilateral IP regimes. Finally, NAFTA demonstrates how regional trade agreements can be a positive, if intermediate, step in the development of the global trade regulation system.

I. INTELLECTUAL PROPERTY AND WORLD TRADE — THE PROBLEM OF PIRACY

A. INTELLECTUAL PROPERTY AND INTERNATIONAL TRADE

The protection of IP rights becomes an international trade issue due to the transfer of products, services and knowledge across borders in connection with international trade and business transactions. Cross-boundary transfers occur in the context of a conflict of interests regarding IP issues between the newly industrialized countries (NICs) and lesser developed countries (LDCs), on the one hand, and the western industrialized countries (WICs), on the other. Most protected IP is in the hands of the WICs. WICs generally want to take advantage of the abundant labor resources available in the NICs and LDCs, while protecting key

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member nations. *Giant Trade Blocs Promise to Shake Up World Commerce*, REUTER LIBR. REP., (BC cycle), Aug. 19, 1992.

4. *Id.*; *see, e.g.*, *Chaotic Pattern of FTAs Makes Future of Trade in Latin America Unpredictable*, INT'L TRADE DAILY (BNA) May 27, 1992; *IMF Says Regionalism Not Substitute for Global Trade*, JAPAN ECON. NEWSWIRE, Sept. 11, 1992.

technologies and other IP rights. NICs and LDCs, however, often have the opposing aim of obtaining protected technologies quickly and cheaply despite the proprietary rights of WIC IP owners. In fact, since most knowledge is created by WICs, developing countries have argued that knowledge should be treated as a "common heritage of mankind," available free of charge to all nations as an act of developmental aid.[5]

B. THE PROBLEM OF PIRACY

These conflicting interests have led to the development of pirate industries in NICs and LDCs, often under the tacit approval of the local government. Piracy has been defined as "any unauthorized and uncompensated reproduction or use of someone else's creative intellectual achievement."[6] Piracy in NICs and LDCs has several direct effects on WIC IP owners: piracy diverts some sales which otherwise would have gone to the IP owner; royalties are lost from the sale of the imitation; and the generally inferior quality of the imitation damages the IP owner's goodwill.[7]

Piracy also has more general effects on WIC economies. If piracy is widespread in an industry, research and development as well as creativity will be less profitable and thus may decrease.[8] Where trade secrets cannot adequately protect inventions, an industry will have difficulty recovering its innovation costs.[9] Piracy can also weaken employment, lower tax revenues from affected industries, and alter the overall trade balance as piracy sales decrease WIC exports in the affected industries.[10]

Piracy, however, may have positive effects. For example, piracy can have an antimonopolistic effect, driving down the IP owners'prices.[11] However, the lions' share of piracy costs are borne by WIC IP owners,

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5. Frank Emmert, *Intellectual Property in the Uruguay Round—Negotiating Strategies of the Western Industrialized Countries*, 11 MICH. J. INT'L L. 1317, 1318 (1990) (citing R. BENKO, PROTECTING INTELLECTUAL PROPERTY RIGHTS 28 (1987)).

6. *Id.* at 1319 (citing J.H. Reichman, *Intellectual Property in International Trade: Opportunities and Risks of a GATT Connection*, 22 VAND. J. TRANSNAT'L L. 747, 775 (1989).

7. *Id.* at 1321.

8. *Id.*

9. *Id.* at 1335.

10. *Id.* at 1321.

11. *Id.*

while WIC economies get only a fraction of the benefit.[12] Recent reports show estimated losses of up to $20 billion annually for U.S. industries alone.[13]

Piracy may also be part of a developing state's economic development policy; unlicensed pirated products may therefore gain a competitive advantage. If governments of NICs and LDCs tolerate or promote piracy, manufacturers within their countries will not have to pay royalties and thus will be spared most research and development costs. Such manufacturers are given a free ride on the lawful IP owners' advertising and market development efforts.[14]

From a global economic point of view, permitting piracy distorts trade like any affirmative governmental intervention. As exporters or investors are reluctant to introduce products or transfer technology containing key intellectual property for fear that such property will be pirated, piracy becomes a barrier to trade. To the extent that such a trade barrier discourages free trade, it contributes to a decline in competitiveness in the affected countries.[15]

C. ALTERNATIVE METHODS TO COMBAT PIRACY

1. Domestic Law

The protection against international piracy afforded by an IP owner's domestic laws is limited. Pirated goods can be excluded from the domestic market at the border, although such exclusion places an additional burden upon already overworked customs and border officials. Alternatively, U.S. IP owners, for example, can bring infringement and damage actions in domestic courts. These owners are likely to encounter service and jurisdictional barriers when trying to sue a foreign producer who has no presence within the United States.

The most effective domestic protection available may lie within the

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12. *Id.* at 1322.

13. *Id.* at 1323 (citing Statement by Secretary of Commerce Malcolm Baldridge on the "Proposed Intellectual Property Improvement Act of 1986" (Apr. 7, 1986), at 1).

14. *Id.* at 1336-37.

15. The United States has stated that its goal for NAFTA in the area of intellectual property protection has been to address shortcomings in the Mexican and Canadian intellectual property rights systems, and in the enforcement of these systems, in order to improve the competitiveness of all intellectual property-based industries in the three countries. Karen James Chopra, *NAFTA Negotiations Will Be Comprehensive; North American Free Trade Agreement*, BUS. AM., Apr. 8, 1991, at 8.

political and economic framework, rather than within a strictly legal one. WICs generally claim that their domestic IP laws are the most effective, and use several methods to influence other states to introduce similar IP laws.[16] Under United States law, the President may apply trade sanctions to—or withhold trade benefits from—nations which inadequately protect U.S. citizens' IP rights. Mexico, for example, had been put on "priority watch" status under Section 301 of the Omnibus Trade and Competitiveness Act of 1988 because of inadequate IP protection. This action has been credited, together with Mexico's own desire to negotiate the NAFTA, with forcing Mexico's 1991 overhaul of its IP laws.

Threatened by the United States with similar trade sanctions and possible loss of trade benefits, other countries with sizeable pirate industries have also responded by implementing more protective IP legislation.[17] While effective, such unilateral actions on the part of the United States under Section 301 can strain the fabric of mutual cooperation essential to the continued operation of the international trading system.

2. International Protection of Intellectual Property

a. International Conventions

The international protection regime for IP is centrally administered by the World Intellectual Property Organization (WIPO).[18] WIPO is a United Nations (U.N.) organization founded in 1970 to promote new treaties and cooperation, and to centralize the administration of resulting international conventions.

For patents, the primary vehicle for protection is the Paris Convention

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16. Emmert, *supra* note 5, at 1319.

17. *See* RALPH H. FOLSOM, ET AL., INTERNATIONAL BUSINESS TRANSACTIONS 668-75 (2d ed. 1991) (citing Judith H. Bello and Alan F. Holmer *"Special 301": Its Requirements, Implementation and Significance*, 13 FORDHAM INT'L L.J. 259 (1989-90)).

18. Convention Establishing the World Intellectual Property Organization, *opened for signature* July 14, 1967, 21 U.S.T. 1749, 828 U.N.T.S. 3; *see* EDMUND JAN OSMANCZYK, THE ENCYCLOPEDIA OF THE UNITED NATIONS AND INTERNATIONAL RELATIONS 1038-39 (1990) (discussing WIPO's incorporation as a specialized agency of the U.N. in 1970 and its role of protecting global intellectual property); *see also* WORLD INTELLECTUAL PROPERTY ORGANIZATION, BACKGROUND READING MATERIAL ON INTELLECTUAL PROPERTY, WIPO Publication No. 659 (E), at 37-38 (1988) [hereinafter BACKGROUND] (discussing the history and development of WIPO).

of 1883, as amended.[19] The heart of the Paris Convention is a clause granting national treatment for the patent holders of any signatory country.[20] In other words, foreign patent holders are to receive the same treatment under domestic IP laws as are nationals of a signatory country.[21] The Paris Convention also includes a one-year grace period for foreign patent filings in a signatory country which, when made within the grace period, relate back to the initial filing date in the patent holder's own jurisdiction for the purpose of establishing priority.[22]

For copyrights, the guiding treaty is the Berne Convention of 1886, as amended.[23] The Berne Convention obviates the requirement that copyright holders of participant states register their copyright in other signatory countries provided that adequate notice of the copyright is given upon publication.[24] The Berne Convention is supplemented by the Universal Copyright Convention of 1952.[25]

For some time, the WICs have unsuccessfully sought to utilize the WIPO to increase the levels of worldwide IP protection.[26] According to one commentator, not only has this effort failed, but previous levels of protection have not been maintained in the face of legal and practical violations by the NICs and LDCs.[27] In fact, one study has recently re-

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19. Paris Convention for the Protection of Industrial Property, *as last revised* July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305; *see* BACKGROUND, *supra* note 18, at 49-50 (discussing the Paris Convention of 1883).

20. *See id.*, at 50-52 (discussing the national treatment rule of Articles 2 and 3 in the Paris Convention as mandating similar treatment between nationals and non-nationals).

21. *Id.*

22. *Id.* at 52-54 (discussing filing procedure under Article 4).

23. *Id.* at 66-68 (stating that the Berne Convention is the oldest international treaty in copyright law and has been revised since 1886).

24. *Id.* at 67 (stating that under the criteria adopted by the Convention, copyright protection is not subject to notice or registration requirements).

25. Universal Copyright Convention, Sept. 6, 1952, 6 U.S.T. 2731, 216 U.N.T.S. 132.

26. Emmert, *supra* note 5, at 1343-44; *But cf.* ROBERT BENKO, PROTECTING INTELLECTUAL PROPERTY RIGHTS: ISSUES AND CONTROVERSIES 9 (1987) (suggesting that while WICs have attempted to use WIPO to strengthen international IP rights, LDCs have followed a similar strategy towards their interests by proposing that WIPO adopt amendments facilitating compulsory licensing and limiting trademarks in the area of pharmaceuticals).

27. *See* Emmert, *supra* note 5, at 1343-44 (suggesting that efforts by WICs to increase levels of international protection have failed due to violations by both NICs and LDCs); *see also* BENKO *supra* note 26, at 9 (discussing LDC's and NIC's at-

vealed that fewer than half the signatory nations to the Berne Convention actually maintain adequate copyright protection although their domestic regulations are in agreement with the Convention's terms.[28] The minimum standards of protection set by the treaties give NICs and LDCs a wide margin of discretion to exclude certain fields from protection or give protection a shorter duration.[29] Moreover, signatories can practice indirect discrimination against foreigners through compulsory licensing laws amounting to technology expropriation, and procedural discrimination against foreigners frequently leading to enforcement problems.[30]

b. GATT

WICs have recently sought to develop additional IP protection outside of WIPO through the framework of the GATT. The draft code on trade-related intellectual property rights ("TRIPs") proposed at the Uruguay round of the GATT has attracted a great deal of attention.[31] However, efforts to strengthen international IP protection through the GATT have several shortcomings. The basic tensions between WICs and NICs/LDCs resurface in the context of the GATT IP negotiations. The developing countries have objected to including IP rights in the Uruguay round. Indeed, the NICs/LDCs proffer that, compared to their industrialized counterparts, they will suffer significantly due to the WICs' monopoli-

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tempts to use WIPO to their economic advantage).

28. Ulrich Joos & Rainer Moufang, *Report on the Second Ringberg Symposium*, *in* GATT OR WIPO? NEW WAYS IN THE INTERNATIONAL PROTECTION OF INTELLECTUAL PROPERTY 903 (Friedrich-Karl Beier & Gerhard Schricker eds., 1989).

29. *See* Emmert, *supra* note 5, at 1341 (stating that the discretion found in the treaties herald the potential for abuse of IP rights); *see also* Paul Katzenberger, *General Principles of the Berne and the Universal Copyright Conventions*, *in* GATT OR WIPO? NEW WAYS IN THE INTERNATIONAL PROTECTION OF INTELLECTUAL PROPERTY 45 (Friedrich-Karl Beier & Gerhard Schricker eds., 1989) (discussing differential levels of protection).

30. *See* Emmert, *supra* note 5, at 1341-42 (noting that state use of compulsory licensing would amount to discrimination because such laws would give licenses to firms at lower than market levels of compensation).

31. *See Review of Trade and Investment Liberalization Measures by Mexico and Prospects for Future U.S.-Mexican Relations*, USITC, Pub. 2275, Inv. No. 332-282, at 2-10 (April 1990) [hereinafter "ITC-I"] (stating that Mexico's advocation of a balanced approach to the enforcement of IP rights, which would weigh these rights against public interest and economic progress, received widespread acclaim among conference participants).

zation of technology and potentially greater access to markets.[32]

Moreover, adoption of the proposed GATT TRIPs code would leave several issues outstanding. For example, if the TRIPs code is implemented in its current draft, key signatories need not strengthen their IP laws for years. Article 66 of the proposed code allows countries ten years to legislate patent protection, with an indefinite extension of this deadline for LDCs.[33] Moreover, Article 44 contains only limited provision for injunctive relief, leaving open a crucial gap in Mexican IP law.[34]

c. Regional and Bilateral Approaches

In addition to these multilateral approaches, bilateral and regional treaties may be negotiated outside of the WIPO framework to include some measure of IP protection. As discussed below, such treaties offer the potential for achieving greater levels of protection between the signatories at a faster pace than possible in large multilateral efforts. However, as the Canada-United States Free Trade Agreement (the "FTA") illustrates, regional and bilateral agreements may not always achieve this potential.

The FTA, as adopted, does not significantly address IP issues. Article 2004, the IP provision of the FTA, directs both governments to cooperate in using international vehicles, such as the Uruguay Round, to generate greater IP protection.[35] According to the Canadian government, although both Canada and the United States worked for a more comprehensive agreement on IP rights during FTA negotiations, ultimately no comprehensive agreement was reached.[36]

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32. *See id.* at 2-8, 2-9 (discussing developing countries positions regarding the inclusion of intellectual property rights).

33. DRAFT FINAL ACT EMBODYING THE RESULTS OF THE URUGUAY ROUND OF THE MULTILATERAL TRADE NEGOTIATIONS, art. 66 (1991), *reprinted in* EDWARD SLAVKO YAMBRUSIC, TRADE-BASED APPROACHES TO THE PROTECTION OF INTELLECTUAL PROPERTY 234 (1992).

34. *See id.* art 44, at 226-27.

35. Canada - United States: Free Trade Agreement, Jan. 2, 1988, U.S. - Can., art. 2004, 27 I.L.M. 281 (1988), *reprinted in* H.R. DOC. NO. 216, 108th Cong., 2d Sess. 217 (1988).

36. JOHN D. RICHARD AND RICHARD G. DEARDEN, THE CANADA - U.S. FREE TRADE AGREEMENT: FINAL TEXT AND ANALYSIS 40 (1988).

II. MEXICAN AND CANADIAN INTELLECTUAL PROPERTY LAW

As an international treaty, NAFTA directs the Parties to amend or supplement their domestic IP laws. Therefore, before reviewing the relevant NAFTA provisions, a brief discussion of the current state of IP protection under Mexican and Canadian law is necessary.

A. MEXICAN INTELLECTUAL PROPERTY LAW

Prior to 1991, Mexico had been identified as one of seven countries with the largest pirate industries and the least effective IP protection.[37] However, the Mexican government had expressed its intent to institute rudimentary IP protection prior to NAFTA negotiations.[38] On June 25, 1991, President Carlos Salinas de Gortari signed Mexico's new IP law, the Law for the Promotion and Protection of Industrial Property (Industrial Property Law).[39] The Industrial Property Law, together with certain amendments to the federal copyright law, significantly strengthens the protection available for industrial property.[40]

1. Patents and Related Protection for Inventive Property

Under the new law, patent protection is extended to cover a broad

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37. Emmert *supra* note 5, at 1327-28, *citing Intellectual Property Rights: Global Consensus, Global Conflict?* 379-83 (R. Gadbaw and T. Richards eds., 1988). The other countries are Argentina, Brazil, India, Korea, Singapore, and Taiwan. *Id.* In a study conducted in 1987-88 by the International Trade Commission ("ITC") of foreign IP protection, respondents consistently ranked Mexico among the worst countries for IP protection in the world. *See Foreign Protection of Intellectual Property Rights and the Effect on U.S. Industry and Trade*, USITC, Pub. No. 2065, Inv. No. 332-245, at 3-1 - 3-10 (Feb. 1988). The ITC study reported that Mexico ranked first for patent protection inadequacies, first for trademark problems, second in trade secret deficiencies, fifth for proprietary technical data problems, and consistently low in the enforcement of IP rights. *Id.*

38. Chopra, *supra* note 15, at 8.

39. Law on the Promotion and Protection of Industrial Property, June 25, 1991, *in* 5 INDUSTRIAL PROPERTY LAW AND TREATIES, WIPO Publication No. 609 (E), at 1, (Oct. 1991) [hereinafter Industrial Property Law].

40. This new law has been called a "milestone" by WIPO and a "model for other developing countries struggling to rewrite their own laws to lure investment and technology." Sigars-Malina, *Free Trade—Changes in the Legal Environment, Mexico and Beyond: Intellectual Property*, FIFTH ANNUAL LEGAL ASPECTS OF DOING BUSINESS IN LATIN AMERICA, at 9.13 (Fla. State Bar, Feb. 6-7, 1992).

range of products and processes, including for the first time microorganisms, plant varieties and "biotechnological processes" for creating "pharmaceutical chemicals."[41] The term for patent protection is extended to twenty years, with a three-year extension available for pharmaceutical and chemical products if the owner of the patent grants a license to a Mexican-majority owned company.[42] Patents may be enforced through a claim for damages, but no provision is made for injunctive relief.[43]

Compulsory licenses are only to be granted in two instances: first, for emergencies or national security reasons;[44] and second, when the patent holder, without valid economic or technical reasons, fails to exploit the patent within the later of three years from the date of grant or four years from the date of filing.[45] In either case, the government maintains the discretion to withhold compulsory licensing even if these conditions are established.[46] In the case of nonuse, the patent owner first will have the opportunity to exploit the patent within one year of his notification of the application for a compulsory license.[47]

Under the new law, Mexico continues to be a "first to file" country, granting a patent to the first inventor to file a patent application for an independently developed invention.[48] However, the Industrial Property Law establishes a new system for patent applications and creates a Mexican Industrial Property Institute which centralizes patent applications.[49] In the case of patent applications for inventions which are protected in other countries, priority in Mexico will be granted either under the terms of existing international patent treaties, or if the Mexican application is made within twelve months following the application for the patent in the country of origin, provided the country of origin reciprocally recog-

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41. INDUSTRIAL PROPERTY LAW, *supra* note 39, art. 20. However, patents are not available for biological processes, plant and animal species, genetic materials and inventions relating to human tissue. *Id.*

42. Industrial Property Law, *supra* note 38, art. 23.

43. *Id.* art. 24.

44. *Id.* art. 77.

45. *Id.* art. 70. (stating that importation of the patented product or of the product obtained from the patented process is now considered use of the patent).

46. *Id.* art. 72.

47. *Id.* art. 72.

48. *Id.* art. 42. In contrast, the United States is one of the few countries to follow the "first to invent" priority rule. *See* ROBERT P. BENKO, *supra* note 25, at 31 (discussing the "first to file" rule applied in the United States).

49. Industrial Property Law, *supra* note 38, arts. 7, 38-61.

nizes applications for patent protection by Mexican inventors.[50]

Utility models and industrial designs are protected under a registration rather than patent procedure.[51] Utility models, previously unprotected, are protected for ten years on a nonrenewable basis, while the protection available for industrial designs is extended from seven to fifteen years on a nonrenewable basis.[52]

For the first time, industrial secrets will also receive protection under Mexican law. As with patents, a claim for damages, rather than injunctive relief, is the legal remedy for unlawful appropriation of industrial secrets.[53]

2. Trademarks and Related Property

The new law provides a ten-year period of protection for trademarks and recognizes service marks.[54] Article 130 recognizes the concept of "justifiable nonuse" as a limit to the provision that trademarks will expire if not used for three consecutive years.[55] The new trademark registration process includes priority for filings by foreign trademark holders pursuant to the applicable international conventions or, in their absence, if filed within six months following application in the host country, under the same reciprocity principles as in patents.[56] The new law also provides for protection of commercial slogans and trade names.[57]

3. Copyrights

The amendments to the federal copyright law address several trade-related IP problems. For the first time, copyright protection is extended to computer software and sound recordings, which had not previously been protected in Mexico.[58] The amendments give all copyright owners

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50. *Id.* arts. 40-41.
51. *Id.*
52. *Id.* arts. 29, 36.
53. *Id.* art. 86.
54. *Id.* arts. 87, 95.
55. *Id.* art. 130.
56. *Id.* arts. 117, 118.
57. *Id.* arts. 99-112.
58. *See* 8 INT'L TRADE REP. 1068 (July 17, 1991) (describing Article 7 and 8 of the federal copyright law as amended by the decree Amending the Federal Copyright Law, OFFICIAL DIARY OF MEXICO, July 17, 1991) [hereinafter Copyright Law

exclusive reproduction and distribution rights for a term of fifty years and create exclusive rental rights for authors.[59] In addition, the amendments significantly strengthen the criminal and civil penalties for copyright infringement.[60]

4. Unresolved Issues

With the adoption of the Industrial Property Law, Mexico's level of IP protection now exceeds that of the rest of Latin America.[61] The new IP legislation is also a significant move by Mexico towards equalizing the IP standards of the three negotiating countries, providing a level similar enough to afford a foundation for NAFTA.[62] However, certain problems have yet to be resolved. For example, from the view of high technology companies in the United States, the new law is flawed because it fails to protect layout designs used in semiconductor manufacturing.[63] The law also does not specifically protect satellite encrypted programming from interception and distribution.[64]

Moreover, the effectiveness of the Mexican IP regime is limited by the civil law system to which it belongs. Injunctions are not traditionally recognized remedies under Mexican law. Therefore, the system handicaps aggrieved IP owners by denying them pre-trial relief.[65] Furthermore, the effectiveness of Mexico's enforcement system suffers because of a cumbersome combination of civil, administrative, and criminal procedures.[66] Mexico's administrative remedies can also be delayed by "amparo" petitions similar to requests for constitutional review.[67] In

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Amendment].

59. Copyright Law Amendment, Article 87.

60. Copyright Law Amendment, Articles 135-143.

61. 9 Int'l Trade Rep. (BNA) Aug. 5, 1992, at 1329.

62. *International Property Enforcement Issues to Play Major Role in NAFTA Talks*, Int'l Trade Rep. (BNA), at 1553 (Oct. 23, 1991); Int'l Trade Daily (BNA) (Oct. 25, 1991).

63. *See* 19 U.S.C. § 2901 (1992) (stating that a "principal regulatory objective of the United States regarding intellectual property [is to] recognize and adequately protect intellectual property including . . . semi-conductor chip layout designs").

64. *See* 18 U.S.C. § 2511 (1993) (prohibiting the interception and disclosure of electronic communications including satellite encrypted programming in the United States).

65. *Intellectual Property Enforcement, supra* note 62.

66. *Id.*

67. *Id.*

sum, Mexico's relatively lengthy judicial process and comparatively small damage awards discourage aggressive private enforcement of IP rights.[68]

The delays and problems in enforcement of Mexican IP laws have led to increased reliance on criminal remedies. While such remedies are faster, they have limited value to private parties in that they do not compensate the IP owner.[69]

B. TRADE-RELATED ISSUES UNDER CANADIAN INTELLECTUAL PROPERTY LAW

As a fellow WIC, Canada has an IP protection regime that is basically similar to that in the United States. Canada has a federal Patent Act, Trademarks Act and Copyright Act.[70] Canada is also a signatory to the major international conventions on IP protection.[71] Moreover, Canada and the United States are familiar with each other's IP enforcement system because of geographic proximity and similar common law traditions.[72]

One aspect of the Canadian Patent Act which adversely affects trade is the granting of compulsory licenses for patented pharmaceutical products.[73] A compulsory license can be obtained if the applicant demonstrates for the three-year period following grant of the patent that the original holder has for no apparent reason failed to produce the patented substance on a commercial scale, that Canadian demand for the substance has not been reasonably met, and that persons living in Canada are prejudiced by the terms and conditions of the patent.[74]

Canada has also implemented regulations which enable Canadian authorities to set price ceilings for certain patented pharmaceutical products that the Canadian government determines are priced too high in the

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68. *Id.*

69. *Id.*

70. *See* MILAN CHROMECEK & STUART C. MCCORMACK, WORLD INTELLECTUAL PROPERTY GUIDEBOOK (1991) (reviewing and explaining all aspects of Canadian intellectual property law).

71. *See* ECONOMIC COUNCIL OF CANADA, REPORT ON INTELLECTUAL AND INDUSTRIAL PROPERTY 52, 118, 134, 211 (1971) (describing Canada's involvement in the world patent, industrial design, copyright, and trademark regimes).

72. *Intellectual Property Enforcement*, *supra* note 62.

73. *See* CHROMECEK & MCCORMACK, *supra* note 70, § 2k (discussing compulsory licensing law for patented medicine).

74. *Id.* § 2j (discussing compulsory licensing when patent rights are abused).

Canadian market.[75] Canada had been expected to come under some pressure in the NAFTA negotiations to remove provisions of the Patent Act which permit these price ceilings.[76]

Among the Parties, Canada is also the only country that does not offer copyright holders a commercial rental right.[77] The United States provides such rights for sound recordings and computer programs. Mexico, moreover, grants general rental rights that apply to all copyright works and a specific right that applies to sound recordings.[78]

III. THE NAFTA INTELLECTUAL PROPERTY PROVISIONS

NAFTA's fundamental goal for IP is to ensure that each Party provides "adequate and effective protection and enforcement of intellectual property rights" to the nationals of the other Parties, "while assuring that measures to enforce intellectual property rights do not themselves become barriers to legitimate trade."[79] In addition to setting forth specific substantive requirements which the Parties must enact into their domestic laws, NAFTA includes provisions for more effective enforcement of these rights against infringement, both internally and at the border.

A. BASIC FRAMEWORK

The first four articles of Chapter 17 of NAFTA set forth the basic framework for IP protection under NAFTA. Article 1701 requires, as a minimum, that each Party give effect to Chapter 17 and the substantive provisions of four major international IP treaties.[80] Article 1702 makes clear that NAFTA establishes a floor for IP protection, and that the Parties are free to implement more extensive protection of these rights in their domestic laws. Article 1703 embodies the fundamental GATT

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75. Patented Medicines Regulations, SOR/88-474 (Gaz. 28/19/88: p. B921).

76. *Also in the News*, Int'l Trade Rep. (BNA) at 1826 (Dec. 11, 1991).

77. *Intellectual Property Enforcement*, *supra* note 62, at 1554.

78. *Id.*

79. NAFTA, *supra* note 1, art. 1701.

80. The Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonogram, Oct. 29, 1971, 25 U.S.T. 309, 866 U.N.T.S. 67; The Berne Convention on Copyrights, Sept. 9, 1886, 168 Consol. T.S. 185; the Paris Convention for the Protection of Industrial Property, July 14, 1967, 21 U.S.T. 1583, T.I.A.S. 6923, 24 U.S.T. 2140, T.I.A.S. 7727; and either of two Conventions for the Protection of New Varieties of Plants, *opened for signature* Dec. 2, 1961, 33 U.S.T. 2703, 815 U.N.T.S. 89 (entered into force 1968). The United States became a party to these conventions in 1981.

national treatment principle that each Party accord nationals of the other Parties no less favorable treatment than it accords its own nationals regarding protection and enforcement of IP rights. Finally, Article 1704 permits Parties to regulate abusive or anticompetitive IP practices notwithstanding any provisions of chapter 17.

B. SUBSTANTIVE PROVISIONS

Many of NAFTA's provisions concerning substantive IP law duplicate the levels of protection currently available under Canadian law and Mexico's new Industrial Property Law.[81] Far from redundant, this duplication in the treaty has important consequences for the continuity and enforcement of these laws, as will be discussed below. Moreover, NAFTA also substantially improves IP protection in several ways.

1. Patents and Related Protection for Inventive Property

Article 1709 broadly requires that patent protection be made available for "any inventions, whether products or processes, in all fields of technology."[82] Article 1709(3) does, however, permit a Party to exclude from patentability plants and animals other than microorganisms; diagnostic, therapeutic and surgical methods for the treatment of humans and animals; and essentially biological processes for the production of plant or animals, in accordance with the GATT TRIPs code and Mexican law.

NAFTA resolves a key problem for the pharmaceutical and chemical industries in the area of "pipeline protection." Patented pharmaceutical and chemical products are vulnerable to piracy, while undergoing testing and development in the "regulatory pipeline." Under NAFTA, the Parties must provide inventors of previously unprotected pharmaceutical and agricultural chemical products with the means to obtain protection for the unexpired duration of their domestic patents.[83] Thus, a patented product that is in the domestic "pipeline" when NAFTA is enacted can be protected when introduced in the foreign market for the remainder of its patent term.

Article 1709(10) of NAFTA limits a Party's right to grant compulsory licenses of patents to situations of extreme urgency or where the appli-

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81. *See, e.g.* NAFTA, *supra* note 1, art. 1709(12) (providing for the incorporation of the 20-year patent protection term requirement).

82. NAFTA, *supra* note 1, art. 1709(3).

83. NAFTA, *supra* note 1, art. 1709(4).

cant for a compulsory license has been unable to obtain authorization for use from the right holder. In either case, the compulsory license shall be limited in scope and duration, nonexclusive, nonassignable and include provision for payment of royalties to the right holder. This article should address the U.S. pharmaceutical industry's concerns over Canada's compulsory licensing of pharmaceuticals. However, under Article 1720, existing compulsory licenses are grandfathered provided they were not granted prior to the publication of the draft GATT TRIPs code.

Article 1710 of NAFTA specifically requires each Party to provide protection for layout designs of semiconductor integrated circuits in accordance with the Treaty on Intellectual Property in Respect of Integrated Circuits. Compulsory licensing of layout designs is not permitted. The period of protection runs for 10 years after the date of filing for registration. Sound recordings and satellite programs are also specifically protected under Articles 1706 and 1707.

2. Trademarks

Article 1708 requires a basic trademark protection scheme similar to that already in effect in the Parties' domestic laws, and includes protection for service marks. This scheme recognizes the principle of justifiable nonuse and includes protection for service marks. Article 1708(11) also prohibits the compulsory licensing of trademarks.[84]

3. Trade Secrets

Article 1711 requires the Parties to provide a minimum level of protection for trade secrets. This locks in an important type of protection now available under Mexico's new Industrial Property Law. In the area of pharmaceutical and chemical products, Article 1711 provides that test data submitted to government agencies to determine whether use of the products is safe and effective shall be protected against disclosure. This provides another important element of "pipeline" protection for these

84. *Id.* art. 1708.

industries.

4. Copyrights

NAFTA's copyright provision, Article 1705, requires the Parties to provide the protection and rights embodied in the Berne Convention. In particular, NAFTA requires copyright protection for computer programs and data compilations, reinforcing the protection now afforded under Mexican law. Article 1705 also requires the Parties to authorize commercial rental rights for computer programs, thereby filling this gap in Canadian law.

C. ENFORCEMENT PROVISIONS

NAFTA imposes a basic obligation on the Parties to ensure that enforcement procedures "are available under domestic law so as to permit effective action to be taken against any act of infringement of IP rights covered by [NAFTA], including expeditious remedies to prevent infringements and remedies to deter further infringements."[85] Article 1714 embodies the GATT principle of transparency to the effect that each Party must ensure that its procedures for enforcement of IP are fair and equitable, not unnecessarily complicated or costly, and do not entail unreasonable time limits or unwarranted delays.

One of NAFTA's major achievements is in the area of injunctive enforcement. Article 1715(2)(c) requires the Parties to authorize judicial authorities to issue injunctions ordering violators to cease infringement, and Article 1716 provides for preliminary injunctions to prevent the entry into commerce of allegedly infringing goods. These articles cure a serious deficiency in the area of pretrial remedies under Mexican law.[86]

Article 1718 provides for border enforcement of IP rights. The Parties must adopt procedures to enable IP owners to request appropriate authorities to impound allegedly infringing goods at the customs level upon posting a bond or other security.[87] Under Annex 1718.14, Mexico has three years in which to implement these border enforcement require-

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85. *Id.* art. 1714(1).

86. Articles 1714 and 1717 also require provisions for damages and criminal penalties in appropriate cases. NAFTA *supra* note 1, arts. 1714, 1717.

87. Both article 1718 and the articles on preliminary injunctions contain procedural safeguards for importers whose goods are enjoined or impounded by IP right holders whose claims prove to be invalid, or not further prosecuted, or where the goods are not infringing. NAFTA, *supra* note 1, art. 1718.

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D. NAFTA'S CONTRIBUTION TO IP PROTECTION AMONG THE PARTIES

In the official U.S. view, NAFTA offers the Parties a higher level of IP protection than any other bilateral or multilateral agreement.[88] This is clearly so in key areas such as semiconductor manufacturing, compulsory licensing, and most importantly, injunctive relief. Moreover, this will remain the case even if the Uruguay Round of GATT is concluded with the TRIPs code intact, since that code has certain shortcomings, as discussed above.

While several of NAFTA's substantive and procedural provisions do increase the level of international protection available to IP owners within the NAFTA states, NAFTA's chief value to the Parties lies in elevating the existing level of IP protection to the status of treaty obligations. In so doing, NAFTA also ties the performance of these obligations to the receipt of treaty benefits such as reduced tariff rates. Both help ensure that IP rights will be observed and enforced in trade among the Parties.[89]

IV. NAFTA AND EXISTING SYSTEMS OF TRADE REGULATION AND INTERNATIONAL INTELLECTUAL PROPERTY PROTECTION

A. INTERNATIONAL INTELLECTUAL PROPERTY CONVENTIONS

By design, NAFTA's IP chapter is consistent with and incorporates the WIPO IP conventions. Article 1701 establishes as a minimum requirement that the Parties give effect to the substantive provisions of the Berne and Paris Conventions. Article 1703(1) incorporates the national treatment principle which is at the core of the Paris Convention, and Article 1705 requires Parties to extend copyright protection and provide

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88. White House Fact Sheet on NAFTA, *reprinted in* BUS. AM. (Aug. 24, 1992).

89. U.S. negotiators recognize the value in securing treaty status for domestic reforms in the IP area. Deputy Assistant U.S. Trade Representative Donald Abelson has stated that one of the benefits to the U.S. of increased free trade through the mechanism of bilateral or regional free trade agreements is to "lock in" positive reforms which have already taken place in key areas such as services, investment issues, and IP protection. INT'L TRADE DAILY (BNA) May 27, 1991.

rights as enumerated in the Berne Convention. Finally, Article 1703(4) makes clear that NAFTA does not regulate the areas of acquisition and maintenance of IP rights provided for in the WIPO conventions.

B. GATT

The current impasse in the Uruguay Round and the rise of regional trade agreements like NAFTA have raised concerns that the multilateral approach to trade regulation pioneered in the postwar years by GATT is in danger of breaking down over unsolvable sectoral, regional and economic conflicts.[90] In the area of IP protection, NAFTA does not bear this out. On the contrary, NAFTA's approach to IP protection is evidence of GATT's continuing vitality and influence.

NAFTA's IP provisions are deferential to the GATT approach to IP protection set forth in the draft TRIPs code. In fact, much of the language and structure of chapter 17 of NAFTA is drawn from this draft code.[91] Moreover, in achieving a comprehensive system of IP protection between two WICs and a NIC, NAFTA bridges the economic and political gulf which has plagued GATT TRIPs negotiations, and contributes to resolution of these issues in the larger GATT framework.

C. NAFTA AND THE ROLE OF REGIONAL TRADE AGREEMENTS

NAFTA's IP chapter illustrates that regional trade agreements have a constructive role to play in the overall development of the global trade regulation system. As evidenced by NAFTA's successful conclusion of an IP accord, difficult issues which challenge the global trading system can be more quickly worked out among a few parties with a high degree of economic and political motivation.[92] In fashioning a truly multi-

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90. *See Chaotic Pattern of FTAs Makes Future of Trade in Latin America Unpredicatable*, Int'l Trade Daily (BNA) May 27, 1992; *IMF Says Regionalism Not Substitute for Global Trade*, JAPAN ECON. NEWSWIRE, Sept. 11, 1992.

91. For example, the 1989 treaty on semiconductor chips is incorporated into Article 1710, even though none of the three NAFTA countries have signed the treaty, because the GATT TRIPs code refers to this treaty in establishing protection in this key area.

92. For example, in the area of drug safety testing, the European Community, the United States and Japan have reached a political agreement to accept the results of tests carried out by each other's drug testing agencies when examining market authorization requests by foreign drug manufacturers. INT'L TRADE REP. (BNA) (Nov. 20, 1991). Citing the wastefulness and delay of duplicate testing requirements, the parties stated that they adopted the trilateral approach to harmonization of standards as

lateral resolution to these issues, the global trading community can therefore profit from the various solutions to such issues developed in the context of multiple regional trade efforts.[93] Viewed in this light, the apparent proliferation of regional trade agreements can duplicate for the multilateral trade system the benefits which the fifty "laboratories of federalism" provide to the development of domestic U.S. law.

As the global community continues to work at multilateral solutions, the negotiation process will also benefit from the increased level of experience and sophistication regarding free trade agreements that countries will bring to the table from their experience in regional trade agreements. Moreover, the negotiating parties will be working from legal and trade regulation systems that are likely to be more broadly similar, at least on key trade-related points, as a result of the negotiation of earlier regional agreements.

The benefits to LDC and NIC economies from increased free trade, which (as in the case of Mexico) may be more immediately available through regional or bilateral trade agreements, will also have a positive effect on resolving many multilateral trade issues. Increased economic growth and stability in developing nations may help bridge the economic and regulatory gap between LDCs and their industrialized trading partners. In this sense, regional trade agreements such as NAFTA may well represent an intermediate step for developing countries toward full integration into the multilateral trade regulation system and the world economy.[94]

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a result of their desire to speedily conclude an agreement. *Id.* The three entities had a high degree of motivation to do so, since together they account for 75% of the world pharmaceutical market and conduct 90% of all pharmaceutical research. *Id.* While the agreement is political in nature and will not have treaty status, it is open to any interested party. *Id.*

93. The inclusion of emerging trade-related issues such as environmental protection into a trade agreement such as NAFTA is a step in this direction, whatever one's opinion of the strength or weakness of NAFTA's specific environmental provisions. Whether this principle will aid in the resolution of the thorny issue of agricultural subsidies which currently confounds multilateral trade negotiations remains to be seen. NAFTA ducks this issue, and this author is not aware of any other regional trade arrangement that addresses it.

94. *See, e.g.*, Joel P. Trachtman, *L'Etat, C'est Nous: Sovereignty, Economic Integration and Subsidiary*, 33 HARV. J. INT. L. 459, 472 (1992) (commenting on economic integration and the role of regionalism). "[T]he rise of regionalism makes sense. Regional groups can work more swiftly than multinational groups to process and assimilate diverse preferences in numerous areas, in order to engage in regional economic integration. Instead of building a single supercomputer to integrate, it may

CONCLUSION

NAFTA's main accomplishments in the area of transboundary IP protection among the Parties are resolving certain key problem areas such as injunctive relief and protection of semiconductor manufacturing processes, and elevating the current level of IP protection available among the Parties to the level of treaty obligations. NAFTA accomplishes this in a manner that complements the existing system of international IP protection and is GATT-consistent. In doing so, NAFTA pioneers the enhancement of international IP protection through trade agreements, and demonstrates that regional trade agreements can complement and strengthen the international system of IP protection as well as the multilateral trade regulation system.

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be more feasible to build many parallel computers to link together. *Id.*