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**THE HIGH COST OF GLOBAL INTELLECTUAL PROPERTY  
THEFT: AN ANALYSIS OF CURRENT TRENDS, THE TRIPS  
AGREEMENT, AND FUTURE APPROACHES TO  
COMBAT THE PROBLEM**

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In 2002, the United States Department of Justice reported that a sixteen-year-old liver transplant patient in New York began receiving regular injections to treat his post-transplant related anemia shortly after surgery.<sup>1</sup> Anemia robs the body's red blood cells of oxygen and, in turn, adds extreme pressure on the heart.<sup>2</sup> It is a potentially deadly disease if left untreated.<sup>3</sup> Despite receiving weekly injections of the anemia medication, the name of which was not disclosed by the Department of Justice for privacy reasons, the boy's anemic condition did not improve and he began to develop atypical complications following his treatments.<sup>4</sup> The boy experienced excruciatingly painful muscle spasms after each injection, despite an otherwise successful transplant.<sup>5</sup> Eight weeks later, after extensive testing, doctors discovered that the injectable medication used to treat the boy's anemia was counterfeit and lacked the sufficient dosage necessary for his treatment.<sup>6</sup>

Counterfeit versions of medications used to treat Parkinson's disease, HIV-AIDS, heart-related conditions, and various infections have also been discovered throughout the United States.<sup>7</sup> For example, reports to the Department of Justice include counterfeit prescription tablets made with lead-based paint (the type normally used to paint road lines) and floor wax,<sup>8</sup> oral contraceptives made of wheat flour, and antibiotic eye drops composed of tap water.<sup>9</sup> In September 2004, a young teenager from Connecticut awoke to an explosion in his bedroom.<sup>10</sup> Investigators determined a counterfeit cellular phone battery that was charging in the boy's bedroom caused the explosion.<sup>11</sup>

The economic cost of such counterfeit goods and intellectual property theft to United States businesses and workers is even more

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<sup>1</sup> UNITED STATES DEPARTMENT OF JUSTICE, OFFICE OF THE ATTORNEY GENERAL, REPORT OF THE DEPARTMENT OF JUSTICE'S TASK FORCE ON INTELLECTUAL PROPERTY, iii (2004), *available at* <http://www.usdoj.gov/criminal/cybercrime/IPTaskForceReport.pdf>.

<sup>2</sup> *Id.*

<sup>3</sup> *Id.*

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at 8.

<sup>8</sup> *Id.* The name of this medication was not disclosed.

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

staggering. The Department of Homeland Security's U.S. Customs and Border Protection reported seizing over \$155 million in counterfeit goods at United States borders in 2006 alone.<sup>12</sup> It is estimated that global intellectual property theft costs over \$500 billion each year worldwide.<sup>13</sup> The U.S. Department of Commerce recently released a statement that in the United States alone, intellectual property theft costs at least \$250 billion and over 750,000 jobs each year.<sup>14</sup> The vast majority of this theft is in the form of counterfeit goods produced in China and sold in the mainstream United States marketplace; China was responsible for 81 percent of counterfeit goods seized by U.S. Customs and Border Protection in 2006.<sup>15</sup>

This article examines the burgeoning issue of international intellectual property theft, its costs and effects, and the future prospects of the efforts of the United States to curtail the problem. This article first defines intellectual property rights and current domestic protections of intellectual property rights. The cost of global intellectual property theft is then analyzed in several discrete categories. First, the economic cost on businesses and the American economy is analyzed. Second, this article addresses the specific problems associated with pharmaceutical patent theft. Next, the article examines current methods and techniques employed by counterfeiters to manufacture and distribute their fraudulent goods. Intellectual property theft by China and Russia is specifically discussed, as these two countries currently top the United States' priority list of problem countries.

The next part of this article analyzes the collective international response to intellectual property theft. Beginning with the Uruguay Round Agreements, this article addresses the establishment of the World Trade Organization ("WTO"), including

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<sup>12</sup> Department of Homeland Security, U.S. Customs and Border Protection, L.A. Strategic Trade Center, FY 2006 Top IPR Commodities Seized (Nov. 7, 2006), [http://www.cbp.gov/linkhandler/cgov/import/commercial\\_enforcement/ipr/seizure/trading/fy06\\_ipr\\_stat.ctt/fy06\\_ipr\\_stat.pdf](http://www.cbp.gov/linkhandler/cgov/import/commercial_enforcement/ipr/seizure/trading/fy06_ipr_stat.ctt/fy06_ipr_stat.pdf).

<sup>13</sup> Frederik Balfour, *Fakes!*, BUSINESSWEEK, Feb. 7, 2005, at 56.

<sup>14</sup> Press Release, Hon. Carlos Gutierrez, Secretary, United States Department of Commerce, Commerce Secretary Carlos Gutierrez Unveils Initiatives to Fight Intellectual Property Theft (Sept. 21, 2005), <http://www.commerce.gov> (follow "Newsroom" hyperlink; then follow "September 2005 Press Releases" hyperlink; then follow "9/21/2005" hyperlink).

<sup>15</sup> Department of Homeland Security, U.S. Customs and Border Protection, L.A. Strategic Trade Center, FY 2004 Top Trading Partners for IPR Seizures (Nov. 7, 2006), [http://www.cbp.gov/linkhandler/cgov/import/commercial\\_enforcement/ipr/seizure/trading/fy06\\_ipr\\_stat.ctt/fy06\\_ipr\\_stat.pdf](http://www.cbp.gov/linkhandler/cgov/import/commercial_enforcement/ipr/seizure/trading/fy06_ipr_stat.ctt/fy06_ipr_stat.pdf).

the functions and responsibilities of this organization as the primary dispute resolution mechanism for intellectual property theft complaints. The focus of this analysis is the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS Agreement”) and its provisions for intellectual property protection and dispute settlement. The later-in-time doctrine is analyzed for its potential effects on obligations of the United States under the TRIPS Agreement. The article next discusses in detail WTO dispute cases which have been brought by the United States under the TRIPS Agreement and analyzes the effects of those cases. The 2006 Special 301 Report of the United States Trade Representative (“USTR”) is also discussed, with a focus on the status of China and Russia and the implications of those countries’ status on future intellectual property rights international measures. Finally, the Dominican Republic-Central America-United States Free Trade Agreement (“CAFTA-DR”), which came into force on January 1, 2006, is analyzed in light of the intellectual property protections provided in the agreement; the article comments on the potential effectiveness of those provisions in light of the 2006 Special 301 Report.

The final part of this article looks to the future prospects of intellectual property protection and theft. It evaluates congressional legislation and considers various new government initiatives in light of Congress’ efforts to increase intellectual property rights protections globally.

Although significant strides have been made recently, both in the United States and internationally, there remains a great deal of work to be done to ensure the greatest possible intellectual property protections to rights holders under current international agreements. The key to increased protection is enforcement by those countries that continue to have a significant problem with theft of intellectual property rights.

## I. DEFINING INTELLECTUAL PROPERTY RIGHTS

The term intellectual property governs intangibles which are a creation of the mind.<sup>16</sup> Traditionally, intellectual property rights (“IPRs”) protected trademarks, copyrights and patents. Since the

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<sup>16</sup> KARLA C. SHIPPEY, A SHORT COURSE IN INTERNATIONAL INTELLECTUAL PROPERTY RIGHTS: PROTECTING YOUR BRANDS, MARKS, COPYRIGHTS, PATENTS, DESIGNS, AND RELATED RIGHTS WORLDWIDE 1 (World Trade Press 2002).

Eighteenth Century's Era of Enlightenment, developed countries have recognized and legally protected the value of intellectual property.<sup>17</sup>

Trademarks distinguish and identify goods and now provide protection for such sub-categories as trade secrets, designs, brand names and domain names among others.<sup>18</sup> Trademarks include:

any word, name, symbol, or device, or any combination thereof (1) used by a person, or (2) which a person has a bona fide intention to use in commerce...to identify and distinguish his or her goods, including a unique product, from those manufactured or sold by others and to indicate the source of the goods.<sup>19</sup>

Trademarks serve a "quality" function by acting as a warranty of the goods and their composition.<sup>20</sup> Many countries, including the United States, require proof of use of the trademark in commerce before the trademark will be issued.<sup>21</sup> A federally registered trademark is valid for ten years, but may be renewed, so long as it is not cancelled or abandoned.<sup>22</sup> Trademarks that do not continue to be used may be cancelled.<sup>23</sup>

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<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 2, 14-15.

<sup>19</sup> Trademark Act of 1946, 15 U.S.C. § 1127 (2006).

<sup>20</sup> ANNE GILSON LALONDE, *GILSON ON TRADEMARK PROTECTION & PRACTICE* § 1.03[3](a). Although owners may alter the composition of their trademarked goods, the goods should stay within the range of quality to which the public has become accustomed. *Id.* The quality function becomes particularly significant in the context of counterfeit goods where consumers lose the quality and protective function of trademarks. *Id.* § 1.03[8](a). As a result, trademarks often symbolize the goodwill earned by a particular business. *Id.* § 1.03[6].

<sup>21</sup> SHIPPEY, *supra* note 16, at 8.

<sup>22</sup> LALONDE, *supra* note 20, § 4.09. *See also* 15 U.S.C. § 1058(a) (2006) (providing trademark registrations effective for ten years). Under the Trademark Act, "a mark shall be deemed to be 'abandoned' if either of the following occurs:

(1) When its use has been discontinued with intent not to resume such use. Intent not to resume may be inferred from circumstances. Nonuse for 3 consecutive years shall be prima facie evidence of abandonment. "Use" of a mark means the bona fide use of such mark made in the ordinary course of trade, and not made merely to reserve a right in a mark.

(2) When any course of conduct of the owner, including acts of omission as well as commission, causes the mark to become the generic name for the goods or services on or in connection with which it is used or otherwise to lose its significance as a mark. Purchaser motivation shall not be a test for determining abandonment under this paragraph." 15 U.S.C. § 1127 (2006).

<sup>23</sup> *Id.*

A copyright is a protection given to the exclusive author of an original creative work such as a musical, literary, or otherwise graphic or artistic performance or work.<sup>24</sup> Copyrights have a limited duration of protection; under the Copyright Act of 1976, copyrights issued after January 1, 1978 are afforded protection for the life of the author plus seventy years.<sup>25</sup>

A patent, which is a statutory right granted to the inventor who discovers or formulates a new and non-obvious invention, protects the inventor's exclusive right to manufacture, use, sell, and develop the invention.<sup>26</sup> Patent rights, which cover useful, novel, and non-obvious inventions, are granted for limited terms, generally from fourteen to twenty years, and cannot normally be extended. Patent rights include protecting design inventions such as clothing and textiles, novel plant hybrids and utility inventions encompassing machines, chemical formulas, electronic circuits, and pharmaceuticals.<sup>27</sup>

It is estimated that the value of intellectual property protected by trademarks, copyrights, and patents in the United States is between \$5 trillion and \$5.5 trillion, or roughly 45 percent of the United States Gross Domestic Product.<sup>28</sup> Clearly, the value of intellectual property to the United States economy is tremendous. As the growth rate of a country directly correlates to that nation's development of and commitment to the adoption of economic innovation,<sup>29</sup> developing nations with poor intellectual property investments and protection remain far behind countries with such protections in economic growth.<sup>30</sup> Economic growth is no longer measured by a country's natural resources, but instead by the technological innovations created in or imported into that country.<sup>31</sup>

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<sup>24</sup> Copyright Act of 1976, 17 U.S.C. § 102(a) (2006).

<sup>25</sup> *Id.* § 302(a).

<sup>26</sup> SHIPPEY, *supra* note 16, at 4.

<sup>27</sup> SHIPPEY, *supra* note 16, at 8, 13.

<sup>28</sup> Robert J. Shapiro & Kevin A. Hassett, *The Economic Value of Intellectual Property* 3 (Oct. 2005) (unpublished manuscript, on file with U.S.A. for Innovation).

<sup>29</sup> *Id.* at 6.

<sup>30</sup> *Id.* at 5.

<sup>31</sup> *Id.* Shapiro and Hassett compare the growth of South Korea and Brazil between the years 1960 to 2000 based on World Bank Development Indicators. *Id.* The authors note that the *per capita* income economic output of South Korea, a country with few natural resources, grew over three times as fast as the economic output of Brazil, a country with plentiful natural resources (emphasis in original). *Id.*

## II. THE PROBLEM OF GLOBAL INTELLECTUAL PROPERTY THEFT

Considering the value of intellectual property, it is understandable that theft of this commodity can have a devastating impact on the businesses and economy of the affected country. Theft of intellectual property most notably comes in the form of counterfeit or pirated goods produced and distributed without proper authorization. The TRIPS Agreement defines counterfeit and pirated goods as follows:

- a) “counterfeit trademark goods” shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation;
- b) “pirated copyright goods” shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation.<sup>32</sup>

Thus, counterfeit goods so closely mirror the appearance of legitimate goods that it is often extremely difficult or impossible to distinguish a true product from a counterfeit copy.

Each year, intellectual property theft costs businesses in the United States at least 750,000 jobs and at least \$250 billion.<sup>33</sup> The World Customs Organization estimates that five to seven percent of global goods traded are counterfeit.<sup>34</sup> The counterfeit market led to a

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<sup>32</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, art. 51, Legal Instruments—Results of the Uruguay Round, 33 I.L.M. 1125 (1994) [hereinafter TRIPS or the TRIPS Agreement].

<sup>33</sup> Press Release, Hon. Carlos Gutierrez, *supra* note 14. Experts agree these estimates are likely conservative. *Id.*

<sup>34</sup> Balfour, *supra* note 13, at 56. The World Customs Organization (“WCO”)

worldwide loss of sales as great as \$512 billion in 2004.<sup>35</sup> The sale of counterfeit goods spans nearly every trade and industry.

Counterfeit products seized by U.S. Customs and Border Protection each year include clothing, footwear, computer hardware and software, digital media such as compact discs and digital versatile discs, toys, cigarettes, electronics, and batteries.<sup>36</sup> In Fiscal Year 2002, U.S. Customs and Border Protection officials seized 5,793 counterfeit goods at the border, yet by 2006, the number of seizures had more than doubled to 14,675.<sup>37</sup> The domestic value of these seizures also rose exponentially during this brief time period. U.S. Customs and Border Protection seized over \$98 million in counterfeit goods in 2002.<sup>38</sup> By 2006, that figure had risen to \$155,369,236, an increase of nearly 159 percent in just four years.<sup>39</sup> Perhaps even more alarming is that the value of goods seized jumped nearly 165 percent between 2005 and 2006 alone, despite measures to provide greater protections for intellectual property rights.<sup>40</sup> It is clear, based on these figures, that the problem of intellectual property theft and counterfeiting is rapidly increasing in the United States.

Individuals counterfeiting goods are reaping the financial rewards of getting illegal products into the mainstream market and selling them at huge profit margins. Counterfeit goods are made more cheaply than legitimate goods because they can be made using inferior raw materials and processes. Another important factor in this analysis is that counterfeiters do not expend money for research and development—they simply copy a legitimate product and are unconcerned with whether the product functions properly.<sup>41</sup> As Frederik Balfour reported in a *BusinessWeek* article in 2005:

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was established in 1952 to support customs administration and protect its member countries by promoting legitimate international trade. The World Customs Organization Fact Sheet 1 (2005-2006), <http://www.wcoomd.org/ie/en/AboutUs/fiche1%20Ang.pdf>. Currently, there are 170 member countries in the WCO. About the World Customs Organization (2005-2006), <http://www.wcoomd.org/ie/tableau%20171%20membres.pdf>.

<sup>35</sup> Balfour, *supra* note 13, at 56.

<sup>36</sup> REPORT OF THE DEPARTMENT OF JUSTICE, *supra* note 1, at 8.

<sup>37</sup> Department of Homeland Security, U.S. Customs and Border Protection, L.A. Strategic Trade Center, Comparison of Yearly Seizure Totals (Nov. 7, 2006), [http://www.cbp.gov/linkhandler/cgov/import/commercial\\_enforcement/ipr/seizure/trading/fy06\\_ipr\\_stat.ctt/fy06\\_ipr\\_stat.pdf](http://www.cbp.gov/linkhandler/cgov/import/commercial_enforcement/ipr/seizure/trading/fy06_ipr_stat.ctt/fy06_ipr_stat.pdf).

<sup>38</sup> *Id.*

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

<sup>41</sup> Balfour, *supra* note 13, at 60.

“Counterfeiters, after all, don’t have to cover research and development, marketing and advertising costs, and most of the expense goes into making goods look convincing, not perform[ing] well.”<sup>42</sup> Thus, counterfeit goods are less reliable than the legitimate goods they imitate. Counterfeit batteries do not last as long, fake “designer” clothes, purses, and accessories wear out more quickly, and counterfeit automobile parts do not meet the same safety standards as authentic goods.<sup>43</sup>

*A. The Social and Labor Related Costs of Intellectual Property Theft*

The cost of counterfeit goods extends far beyond the economic lost profits of legitimate companies and consumers. Because counterfeit products are made with lower quality components and are not subject to the standards and regulations governing safety and quality, many counterfeit goods are dangerous to the health and safety of consumers. For example, United States law enforcement agents discovered hundreds of thousands of counterfeit general-use batteries made with unsafe levels of mercury that could explode if exposed to sunlight.<sup>44</sup> These batteries were set for sale in bargain stores and were branded with a trusted household name. The Department of Justice reports that, once the batteries were discovered, it took federal authorities several months to destroy them.<sup>45</sup> Counterfeit food products, insecticides, brake pads, headlights, car batteries, and other parts have been found throughout retail stores in the United States.<sup>46</sup> The estimated cost of counterfeit parts to automobile companies worldwide is \$12 billion.<sup>47</sup> Hanns Glatz, an intellectual property expert for DaimlerChrysler, characterizes counterfeiting as a trade that “has gone from a local nuisance to a global threat.”<sup>48</sup> The U.S. Department of Justice reports that counterfeit brake pads composed of compressed sawdust were discovered in Asia after seven children were killed when the pads failed.<sup>49</sup> Such counterfeit parts are particularly dangerous to everyday consumers who rely on the assumption that

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<sup>42</sup> *Id.*

<sup>43</sup> *Id.*

<sup>44</sup> REPORT OF THE DEPARTMENT OF JUSTICE, *supra* note 1, at 8.

<sup>45</sup> *Id.*

<sup>46</sup> *Id.*

<sup>47</sup> Balfour, *supra* note 13, at 56.

<sup>48</sup> *Id.*

<sup>49</sup> REPORT OF THE DEPARTMENT OF JUSTICE, *supra* note 1, at 8.

purchasing brand name products generally guarantees better quality and an ultimately safer product. The U.S. Department of Justice Task Force on Intellectual Property reported in October 2004 that hundreds of medical students and doctors used stolen textbooks with incorrect prescription dosage data which may have proved fatal if prescribed improperly.<sup>50</sup>

Theft of digital media and the production of counterfeit compact discs, digital versatile discs, movies, music and software is a rapidly expanding industry worldwide. The U.S. Department of Commerce reported in July 2005 that 90 percent of all movies and music sold in China are pirated.<sup>51</sup> By 1999, domestic sales of music recordings had sky rocketed to \$15 billion from only \$4 billion in 1980.<sup>52</sup> However, since that time, the music recording industry has seen a 20 percent decline due to piracy.<sup>53</sup> There had also been over 4,000 domestic jobs lost in the music industry as a result of intellectual property piracy as of the April 2004 hearing.<sup>54</sup>

The Entertainment Software Association reports the entertainment software industry fears it will soon experience similar losses.<sup>55</sup> Douglas Lowenstein, President of the Entertainment Software Association, reported at the same Senate hearing that video games cost on average \$5 to \$10 million to create over a period of two to three years.<sup>56</sup> However, the ability to recover this investment through sales overseas has become nearly impossible, as some regions have piracy rates of 80 to 90 percent.<sup>57</sup> Lowenstein testified that the industry will not be able to sustain growth unless the problem of

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<sup>50</sup> *Id.*

<sup>51</sup> Press Release, Hon. Carlos Gutierrez, Secretary, United States Department of Commerce, Gutierrez Hails Announcement of International IPR Enforcement Coordinator: New Position to Focus on Combating International Intellectual Property Theft (July 22, 2005), [http://www.commerce.gov/opa/press/Secretary\\_Gutierrez/2005\\_Releases/July/22\\_IPR\\_Coordinator.htm](http://www.commerce.gov/opa/press/Secretary_Gutierrez/2005_Releases/July/22_IPR_Coordinator.htm).

<sup>52</sup> *International and Domestic Intellectual Property Enforcement: Hearing Before the Subcomm. on Commerce, Justice, State, and the Judiciary of the Senate Comm. on Appropriations*, 108th Cong. 9 (2004) (statement of Mitch Bainwol, Chairman and Chief Executive Officer, Recording Industry Association of America regarding music sales). Bainwol reported a similar increase in worldwide music recording sales of \$39 billion in 1999, up from \$11 billion in 1980. *Id.*

<sup>53</sup> *Id.* at 10. Bainwol stated this decrease was due to a combination of Internet piracy, physical global piracy, and illegal burning of compact discs. *Id.*

<sup>54</sup> *Id.*

<sup>55</sup> *Id.* at 17 (statement of Douglas Lowenstein, President, Entertainment Software Association).

<sup>56</sup> *Id.*

<sup>57</sup> *Id.*

global piracy is better controlled.<sup>58</sup> Robert W. Holleyman, II, President and Chief Executive Officer of the Business Software Alliance, characterizes the struggle against intellectual property theft as a daily fight.<sup>59</sup> He estimates that piracy has cost the worldwide software industry \$12 billion per year for each of the last three years, with average losses of \$2 billion in the United States, the country with the greatest losses.<sup>60</sup>

### *B. Impact of Counterfeit Pharmaceutical Products*

Fake pharmaceutical products present a particularly grave threat to consumers. The World Health Organization (“WHO”) defines a counterfeit drug as:

a medicine, which is deliberately and fraudulently mislabeled with respect to identity and/or source. Counterfeiting can apply to both branded and generic products and counterfeit products may include products with the correct ingredients or with the wrong ingredients, without active ingredients, with insufficient active ingredients or with fake packaging.<sup>61</sup>

The WHO estimates that five to seven percent of pharmaceuticals worldwide are counterfeit.<sup>62</sup> Pfizer, Inc., is one of many pharmaceutical companies teaming up with law enforcement officials to enforce criminal counterfeiting sanctions. Pfizer reported seizures of over 11.5 million counterfeit Pfizer products in 2004 in the United States, which led to 364 arrests by law enforcement authorities.<sup>63</sup> The United States Food and Drug Administration Office of Criminal Investigations initiated fifty-eight cases against pharmaceutical

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<sup>58</sup> *Id.*

<sup>59</sup> *Id.* at 25 (statement of Robert W. Holleyman, II, President and Chief Executive Officer, Business Software Alliance).

<sup>60</sup> *Id.*

<sup>61</sup> Michele Forzley, *Combating Counterfeit Drugs: A Concept Paper for Effective International Collaboration* 11 (Sept. 2005) (unpublished draft paper, on file with the World Health Organization Health Technology and Pharmaceuticals), available at [http://www.who.int/medicines/services/counterfeit/CombatingCounterfeitDrugs\\_Conceptpaper.pdf](http://www.who.int/medicines/services/counterfeit/CombatingCounterfeitDrugs_Conceptpaper.pdf).

<sup>62</sup> *Id.* at 8.

<sup>63</sup> Pfizer, Inc., *Keeping Medicines Safe: Combating Counterfeit Medicines* (2005), [http://www.pfizer.com/Pfizer/subsites/corporate\\_citizenship/report/combating.jsp](http://www.pfizer.com/Pfizer/subsites/corporate_citizenship/report/combating.jsp).

counterfeiters in 2004, as compared to only thirty cases of the same type in 2003.<sup>64</sup> This increase in cases suggests an increase in the prevalence of fake products in the United States. Fortunately, most counterfeit pharmaceuticals have been intercepted before distribution to consumers in the United States.<sup>65</sup> Yet, although actual numbers remain relatively low in the United States, incidences are rising, and this pattern concerns the U.S. Food and Drug Administration, pharmaceutical companies, law enforcement officials, and lawmakers alike.

Counterfeit pharmaceuticals worldwide cost pharmaceutical companies up to \$46 billion each year.<sup>66</sup> As reported by Pfizer, the Center for Medicine in the Public Interest estimates that by the year 2010, worldwide sales in counterfeit pharmaceutical products will likely reach \$75 billion.<sup>67</sup> Robert Shapiro and Kevin Hassett of USA for Innovation state: “Experts in pharmaceutical piracy have found that counterfeits account for up to 50 percent of certain drugs sold in China and Pakistan, and more than 10 percent of the entire markets in other Asian countries and Russia.”<sup>68</sup> In China, fifteen infants died after consuming fake milk powder products in 2004.<sup>69</sup> Pfizer reports that for the period from January 1, 2005 to September 16, 2005, authorities confiscated nearly 4.8 million counterfeit tablets.<sup>70</sup> Pfizer also reports that in 2005, Chinese authorities seized one million counterfeit Lipitor hyperlipidemia (high cholesterol) tablets, 446,400 Viagra tablets, and 449,200 Norvasc hypertension tablets in one seizure alone.<sup>71</sup> These reports are particularly alarming because counterfeit versions of life-saving drugs, such as those used for high cholesterol and hypertension, present an increased threat to the safety and overall health of consumers.

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<sup>64</sup> U.S. Food and Drug Administration, *Combating Counterfeit Drugs: A Report of the Food and Drug Administration Annual Update* (May 18, 2005), <http://www.fda.gov/oc/initiatives/counterfeit/update2005.html>.

<sup>65</sup> *Id.*

<sup>66</sup> Balfour, *supra* note 13, at 56.

<sup>67</sup> Pfizer, Inc., *supra* note 63.

<sup>68</sup> Shapiro & Hassett, *supra* note 28, at 4.

<sup>69</sup> Balfour, *supra* note 13, at 62.

<sup>70</sup> Pfizer, Inc., *2005 Corporate Citizenship Report*, 27 (2005) (unpublished manuscript), available at [http://www.pfizer.com/pfizer/subsites/corporate\\_citizenship/report/cc\\_report\\_2005.pdf](http://www.pfizer.com/pfizer/subsites/corporate_citizenship/report/cc_report_2005.pdf).

<sup>71</sup> *Id.*

*C. Methods of Intellectual Property Theft and Counterfeit Distribution*

The World Customs Organization has estimated that “counterfeiting accounts for 5% to 7% of global merchandise trade, equivalent to lost sales of as much as \$512 billion [in 2004] – though experts say this is only a guess.”<sup>72</sup> Counterfeiters employ many different methods to produce and distribute their goods in the mainstream market. Reports show that legitimate, licensed brand name producers often also run counterfeit operations. Because these producers have the designs, molds, and information concerning the products, the producers can easily manufacture counterfeit versions of the brand name goods using cheaper materials.<sup>73</sup> Generic manufacturers utilize this same process to produce counterfeit drugs and other goods. Financing for these operations can come “from a variety of sources, including Middle East middlemen, local entrepreneurs, and organized crime.”<sup>74</sup> Thus, some of the proceeds from these operations are likely to be used in other criminal activities.<sup>75</sup> Additionally, “although the information is sketchy at best, there have been a series of rumored ties between [counterfeiting] operations and terrorist organizations.”<sup>76</sup>

The physical dangers to those who consume these fake drugs are obvious. However, how are pharmaceutical companies and consumers to distinguish between real and fake drugs or between authentic brake pads and those made of compressed sawdust? Unfortunately, counterfeiters have become so sophisticated that they are able to mimic both products and packaging so closely that even a trained eye often cannot distinguish between them. As Frederik Balfour reports, as counterfeiters’ technology increases, legitimate companies find they must turn to forensic science to aid them in distinguishing their product from a copy manufactured by a counterfeiter.<sup>77</sup> Alexander Theil, Director of Investigation for General

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<sup>72</sup> Balfour, *supra* note 13, at 56.

<sup>73</sup> *Id.* at 58.

<sup>74</sup> *Id.*

<sup>75</sup> *Piracy of Intellectual Property: Hearing Before the Subcomm. on Intellectual Property, Comm. on the Judiciary United States Senate*, 109th Congress 7 (May 25, 2005) (statement of Marybeth Peters, The Register of Copyrights, United States Copyright Office), available at [http://judiciary.senate.gov/testimony.cfm?id=1514&wit\\_id=4303](http://judiciary.senate.gov/testimony.cfm?id=1514&wit_id=4303).

<sup>76</sup> *Id.*

<sup>77</sup> Balfour, *supra* note 13, at 57.

Motors Asia Pacific, stated when speaking of various brake pads, batteries, and air filters that General Motors had discovered being distributed to customers and retailers: “We had to cut them apart or do chemical analysis to tell” they were counterfeits.<sup>78</sup>

In an effort to stop the problem of counterfeiting at the point of manufacturing, many companies invest a great deal of capital to make their products counterfeit-proof. For example, when Anheuser-Busch Company began having problems with Chinese counterfeiters refilling used Budweiser beer bottles, the company started using expensive foil on its bottle labels that was not readily available in China.<sup>79</sup> The company also began using temperature-sensitive labels that changed color when cold.<sup>80</sup> Other companies such as Yamaha have decreased the costs of their own production so that they can lower their prices to compete with counterfeit products.<sup>81</sup> However, all too often counterfeiters drop their costs as well, further diminishing the quality and safety of their products. Some pharmaceutical companies, such as Pfizer, are creating radio-frequency identification tags that are placed on drugs sold in the United States to “enable [them] to track drugs all the way from the laboratory to the medicine cabinet.”<sup>82</sup> Other companies frequently make slight alterations in the appearance of their products to try to stay one step ahead of counterfeiters.<sup>83</sup> Regardless of the method chosen by an individual company, one constant among all companies is the increased investment required to fight counterfeiters who are often on the other side of the globe. JT International, a cigarette producer, has increased its anti-counterfeiting budget to \$15 million from just \$200,000 in 1999.<sup>84</sup> These funds go toward hiring investigators, informants in suspected industries, and attorneys to find, prosecute, and eliminate counterfeit signatures with their name.<sup>85</sup>

Many counterfeiters are able to mix their fake goods with authentic products, thereby moving them into the mainstream market undetected.<sup>86</sup> In Shanghai, customs officials have discovered fake goods packaged with a non-brand name label during shipment;

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<sup>78</sup> *Id.* at 58.

<sup>79</sup> *Id.* at 60.

<sup>80</sup> *Id.*

<sup>81</sup> *Id.*

<sup>82</sup> *Id.*

<sup>83</sup> *Id.*

<sup>84</sup> *Id.*

<sup>85</sup> *Id.*

<sup>86</sup> *Id.* at 58, 60.

however, once the goods are distributed, the fake name label is removed to reveal a brand name underneath.<sup>87</sup> Counterfeiters have found ways to deceive customs officials throughout the process of shipping and transporting goods to ensure they reach commerce undetected. Thus, even while companies continue to increase expenditures to fight counterfeit products and intellectual property theft, counterfeiters continue to lower their costs and make substantial profits on fake goods.

Besides the economic loss that intellectual property theft costs a country in direct loss of sales, companies also lose a great deal of funds in investments to fight counterfeiting of their products through both detection of counterfeit goods, marketing and replacement costs, prosecution of offenders, and future prevention and protection of their products.<sup>88</sup> However, as the Organization for Economic Co-Operation and Development reports, consumers purchasing counterfeit goods also lose feelings of goodwill toward the manufacturer and the industry that manufactures the legitimate goods, which has obvious repercussions for future sales and the reputation of the company and industry involved.<sup>89</sup> The future implications for legitimate businesses also include discouraging honest manufacturers from investing in the market when the legal system of that country clearly will not provide the necessary protection.<sup>90</sup>

Countries that are major producers of counterfeit products also suffer harm, despite the billions in profits a few individuals may make. First, those countries may develop a reputation for poor quality products and illegal trade practices, making the countries' own industries suffer job and revenue losses.<sup>91</sup> Second, those countries lose investments by other countries and the sharing of ideas and processes.<sup>92</sup> Likewise, counterfeiters will not pay taxes on the sale of counterfeit goods and the country itself will not gain from the illegal sale of these goods.<sup>93</sup>

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<sup>87</sup> *Id.* at 60.

<sup>88</sup> Hema Vithlani, Organization for Economic Co-Operation and Development, *The Economic Impact of Counterfeiting* 22 (1998) (unpublished paper on file with the ICC Counterfeiting Intelligence Bureau, for the Industry Division of the OECD's Directorate for Science, Technology and Industry).

<sup>89</sup> *Id.*

<sup>90</sup> *Id.*

<sup>91</sup> *Id.*

<sup>92</sup> *Id.*

<sup>93</sup> *Id.* at 23.

Socially, consumers suffer by being forced to pay increased costs for goods to help defer the cost companies absorb due to counterfeit goods and loss of sales.<sup>94</sup> As previously discussed, criminal organizations and terrorists often reap the financial rewards of intellectual property theft, while unwitting consumers bear the dangers and risks of poorly made products or fake medications.<sup>95</sup> Importantly, global intellectual property theft creates distrust and ill will between nations.<sup>96</sup> China and Russia have been major producers of counterfeit goods and have failed to provide strong protections for intellectual property rights holders—thus they remain on the United States' watch list of countries about which to be concerned.

#### *D. China and Russia: Problem Countries*

China is one of the United States' greatest trading partners. Trade in goods with China rose from \$5 billion in 1980 to \$231 billion in 2004.<sup>97</sup> William H. Cooper with the Foreign Affairs, Defense, and Trade Division of the Library of Congress Research Services reports that the United States' largest bilateral trade deficit is with China, which in 2004 was \$162 billion.<sup>98</sup> This is more than twice the deficit with Japan, which is the second largest at \$75.2 billion.<sup>99</sup> U.S. Customs and Border Protection reported that of the over \$155 million in intellectual property rights seizures made in fiscal year 2006, 81 percent were of goods from China.<sup>100</sup>

In dealing with China's high rate of intellectual property theft and production of counterfeit goods, perhaps the biggest problem facing the United States is the apathy the Chinese government displays in recognizing and addressing the problem. Despite a long history of intellectual property rights protection agreements with China, theft in that country continues to grow.<sup>101</sup> Although China is a member of the

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<sup>94</sup> *Id.*

<sup>95</sup> *Id.*

<sup>96</sup> *Id.* at 22-23.

<sup>97</sup> William H. Cooper, Trade Issues in the 109th Congress: Policy Challenges and Opportunities 16 (Mar. 24, 2005) (unpublished Congressional Research Service Report for Congress, on file with The Library of Congress, Order Code RL32829).

<sup>98</sup> *Id.*

<sup>99</sup> *Id.*

<sup>100</sup> FY2006 Top Trading Partners for IPR Seizures, *supra* note 15.

<sup>101</sup> *Piracy of Intellectual Property: Hearing Before the Subcomm. on Intellectual Property, S. Comm. on the Judiciary*, 109th Cong. 5 (May 25, 2005) (statement of Stephen M. Pinkos, Deputy Under Secretary of Commerce for Intellectual Property and Deputy Director of the U.S. Patent and Trademark Office), *available at* 2005

World Trade Organization (“WTO”) and has created laws that provide intellectual property protection, experts say that China is falling dangerously short with its lack of enforcement.<sup>102</sup>

Besides being a WTO member, China must comply with TRIPS Agreement requirements for intellectual property protection.<sup>103</sup> However, even though tens of thousands of intellectual property rights enforcement actions are reportedly carried out each year in China, these actions are typically enforced by administrative-type agencies that impose penalties deemed “non-deterrent,” which often do not include stiff fines or prison sentences.<sup>104</sup> For example, one Guangdong Province factory has been raided by authorities three times in two and one half years for producing counterfeit windshields with the Volvo, BMW, Audi, or DaimlerChrysler brand names.<sup>105</sup> This factory remains open and continues to produce these counterfeit windshields and sell them in the global market.<sup>106</sup> A recent interpretation of intellectual property criminal infringement by the Supreme People’s Court and Supreme People’s Procuratorate seemed to make progress towards punishing more offenders criminally by decreasing the value threshold required to substantiate an infringement.<sup>107</sup> However, in actuality, the interpretation lessened penalties for repeat offenders and now allows the value of goods to be determined based on their street rather than legitimate value.<sup>108</sup> Other problems plague increased intellectual property rights enforcement in China, such as the lack of coordinated efforts, the presence of extensive internal corruption, and the concept of local protectionism.<sup>109</sup> These social and cultural barriers present huge hurdles to those seeking increased intellectual property rights protection and enforcement in China.

Russia is also a major source of global intellectual property theft and a major counterfeit producer. Second only to China in fiscal

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WL 1248204 [hereinafter Statement of Stephen M. Pinkos]. The United States first entered into Intellectual Property Rights protection agreements with China through bilateral agreements as early as 1903. The history of these agreements continued with a number of commercial agreements focused on improving the IPR protections afforded by China, starting in the 1970s. *Id.*

<sup>102</sup> *Id.*

<sup>103</sup> *Id.*

<sup>104</sup> *Id.* at 7.

<sup>105</sup> *Id.* at 6.

<sup>106</sup> *Id.*

<sup>107</sup> *Id.*

<sup>108</sup> *Id.*

<sup>109</sup> *Id.*

year 2004, counterfeit goods seized by U.S. Customs and Border Protection from Russia accounted for some five percent of all seizures.<sup>110</sup> The copyright industry estimates losses to Russian piracy accounted for over \$1.7 billion in 2004 alone.<sup>111</sup> As Deputy Under Secretary of Commerce for Intellectual Property Stephen M. Pinkos reported, “copyright piracy levels in the Russian Federation in 2004 were estimated by industry at 80 percent for motion pictures, 66 percent for records and music, 87 percent for business software, and 73 percent for entertainment software[;] [t]he production of optical media in Russia far exceeds legitimate demand.”<sup>112</sup> Reports indicate that, despite action by law enforcement such as raids and seizures, the counterfeit plants in Russia continue to operate and do not seem to have been significantly impacted by those raids. This is likely because the penalties assessed were so minimal that they had little to no punitive or deterrent effect on the violators. The average penalty in 1300 raids conducted in 2004 targeting music pirates was only \$50.<sup>113</sup> Like China, Russia has made efforts to recommit itself to intellectual property protection, such as reforming domestic laws to bring them into compliance with the 1992 United States-Russian bilateral trade agreement.<sup>114</sup> However, these steps are not enough, and Russian laws still fall short of providing sufficient intellectual property rights protections as required under the TRIPS Agreement.<sup>115</sup>

### III. ADDRESSING INTELLECTUAL PROPERTY THEFT ON AN INTERNATIONAL LEVEL

#### A. *The World Trade Organization*

The WTO was created by the Uruguay Round Agreements Act of 1994, and officially came into force on January 1, 1995.<sup>116</sup> The Uruguay Round of Multilateral Trade Negotiations of the General

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<sup>110</sup> Department of Homeland Security, U.S. Customs and Border Protection and U.S. Immigration and Customs Enforcement, FY 2004 Top Trading Partners for IPR Seizures (2004), [http://www.cbp.gov/linkhandler/cgov/import/commercial\\_enforcement/ipr/seizure/trading/top\\_seizures\\_04.ctt/top\\_seizures\\_04.pdf](http://www.cbp.gov/linkhandler/cgov/import/commercial_enforcement/ipr/seizure/trading/top_seizures_04.ctt/top_seizures_04.pdf).

<sup>111</sup> Statement of Stephen M. Pinkos, *supra* note 101, at 14.

<sup>112</sup> *Id.*

<sup>113</sup> *Id.* at 15.

<sup>114</sup> *Id.*

<sup>115</sup> *Id.*

<sup>116</sup> Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Apr. 15, 1994, 33 I.L.M. 1125 (1994) [hereinafter Agreement Establishing the WTO] (entry into force Jan. 1, 1995).

Agreement on Tariffs and Trade (“GATT”) and ensuing establishment of the WTO is the result of some seven years of trade negotiations lasting from September 1986 to December 1993, officially concluding in April 1994.<sup>117</sup> The WTO is a negotiating forum that seeks to help member countries’ governments resolve trade-related disputes between each other while promoting freer trade through compromise and negotiations.<sup>118</sup> The WTO is the successor to the GATT.<sup>119</sup> Although the GATT still exists, the WTO is now the leading international trade organization.<sup>120</sup> One of the WTO’s founding principles is that countries may not discriminate between trading partners, so that all receive the same status.<sup>121</sup> This trading principle, Most Favored Nation (“MFN”) status, was adopted from the GATT era.<sup>122</sup> Thus, fair competition practices among member countries will be promoted and barriers to free trade will be removed. The WTO also promotes the principle known as “national treatment” whereby a country treats foreign goods in its market the same as if they were domestically produced.<sup>123</sup>

Currently, the WTO has 148 member countries, including the United States and China.<sup>124</sup> When the United States adopted the Uruguay Round Agreements Act in the 103d Congress, it maintained the right to end its membership in the WTO.<sup>125</sup> Under the Review of Participation in the WTO of the Uruguay Round Agreements Act section, Congress requires that:

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<sup>117</sup> JAYASHREE WATAL, INTELLECTUAL PROPERTY RIGHTS IN THE WTO AND DEVELOPING COUNTRIES 11 (2001).

<sup>118</sup> World Trade Organization, *Understanding the WTO* 9 (2007), [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/utw\\_chap1\\_e.pdf](http://www.wto.org/english/thewto_e/whatis_e/tif_e/utw_chap1_e.pdf).

<sup>119</sup> Agreement Establishing the WTO, *supra* note 116.

<sup>120</sup> *Understanding the WTO*, *supra* note 118, at 15-16, 19. The GATT provided most of the global trade rules for forty-seven years, beginning in 1948. During its reign, GATT held eight large trade rounds with many member countries, each addressing the necessary global trade issues of their time. These rounds have been deemed successful as the major conduits through which global liberalization of trade occurred. The largest and longest of these was the seven-year Uruguay Trade Rounds where 123 member countries participated and addressed issues such as dispute settlement, tariffs, rules, creation of the WTO and intellectual property rights. The GATT remained, “the only multilateral instrument governing international trade from 1948 until the WTO was established in 1995.” *Id.*

<sup>121</sup> *Id.* at 10.

<sup>122</sup> *Id.*

<sup>123</sup> *Id.* at 11.

<sup>124</sup> *Id.* at 1.

<sup>125</sup> Uruguay Round Agreements Act, 19 U.S.C. § 3535(a) (2006).

(1) after the end of the 5-year period beginning on the date on which the WTO Agreement enters into force with respect to the United States, and (2) after the end of every 5-year period thereafter, shall include an analysis of the effects of the WTO Agreement on the interest of the United States, the costs and benefits to the United States of its participation in the WTO, and the value of the continued participation of the United States in the WTO.<sup>126</sup>

If at that time Congress determines it does not approve of continued membership in the WTO, the United States can only declare the Agreement ineffective by a joint resolution of both Houses of Congress.<sup>127</sup> Although efforts have been made to withdraw the United States from the WTO, those attempts have been handily defeated.<sup>128</sup>

### *B. The TRIPS Agreement*

The most significant result of the Uruguay Round Negotiations, besides establishment of the WTO, was the adoption of the TRIPS Agreement.<sup>129</sup> The TRIPS Agreement is the first international intellectual property protection agreement that protects the gamut of intellectual property rights.<sup>130</sup> Prior to the implementation of the TRIPS Agreement, the Paris Convention for the Protection of Industrial Property of 1883 was the primary agreement protecting the rights of industrial intellectual property such as trademarks and patents.<sup>131</sup> The 1883 agreement was adopted by many countries under the belief that, “like medieval privileges, [patents] could convince foreign inventors to immigrate to the granting

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<sup>126</sup> *Id.*

<sup>127</sup> *See id.*; 19 U.S.C. §§ 3535(b)(1), (c)(2) (2005). The resolution may be introduced by either House.

<sup>128</sup> H.R.J. RES. 27, 109th Cong. (2005). On Mar. 2, 2005, House Joint Resolution 27 was offered by a limited number of Representatives. The House Ways and Means Committee reported out the resolution adversely and it was defeated by a wide margin on June 9, 2005, in the House of Representatives. The bill was defeated with 86 yea votes and 338 nay votes after two hours of general debate. *Id.*

<sup>129</sup> TRIPS Agreement, *supra* note 32.

<sup>130</sup> NUNO PIRES DE CARVALHO, THE TRIPS REGIME OF PATENT RIGHTS 28 (2d ed. 2005).

<sup>131</sup> *Id.* *See generally* Convention for the Protection of Industrial Property, Mar. 20, 1883, 13 U.S.T. 1, 25 Stat. 1372 [hereinafter the Paris Convention].

country.”<sup>132</sup> The idea of granting the privilege of patent protection only to nationals reigned for many years throughout a host of countries, including the United States, which only entitled those foreigners residing in the United States to patent protection.<sup>133</sup> Even recently, some governments subjected non-national patent holders to cancellation or compulsory licensing requirements.<sup>134</sup>

The Berne Convention for the Protection of Literary and Artistic Works of 1866 was the major agreement protecting copyrighted literary and artistic works until the birth of the TRIPS Agreement.<sup>135</sup> The protection provided by this agreement included “every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression, such as books, pamphlets . . . lectures, addresses, sermons...dramatic or dramatico-musical works; . . . musical compositions with or without words; . . . cinematographic works . . . works of drawing, painting, architecture . . . photographic works . . ., [and] . . . illustrations.”<sup>136</sup> Thus, although there were international agreements protecting many intellectual property rights prior to the TRIPS Agreement, there was no comprehensive agreement spanning all sources of intellectual property. Further, it had been many years since a comprehensive agreement taking into account the rapid developments and changes in the regime of intellectual property had been signed.

The TRIPS Agreement made a significant leap forward in the world of intellectual property rights protection by “raising and harmonizing the minimum standards of protection of some areas of intellectual property, by establishing mechanisms of enforcement, and by submitting intellectual property disputes to the WTO dispute settlement mechanism.”<sup>137</sup> The TRIPS Agreement, although comprehensive, does not encompass all areas of intellectual property. The TRIPS Agreement regulates copyrights and six categories of industrial property: patents, trademarks, industrial designs, layout designs of integrated circuits, geographical indications, and undisclosed information.<sup>138</sup> The TRIPS Agreement does not regulate

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<sup>132</sup> DE CARVALHO, *supra* note 130, at 16.

<sup>133</sup> *Id.*

<sup>134</sup> *Id.*

<sup>135</sup> *Id.*

<sup>136</sup> Convention for the Creation of an International Union for the Protection of Literary and Artistic Works art. 2, Sept. 9, 1886, 168 Consol. T.S. 185, 12 Martens Nouveau Recueil (2d) 173 [hereinafter the Berne Convention].

<sup>137</sup> DE CARVALHO, *supra* note 130, at 16-17.

<sup>138</sup> *Id.* at 29. See TRIPS Agreement, *supra* note 32, art. 9-39. de Carvalho notes,

protection of trade names, collective marks, and utility models among others, which are industrial properties explicitly protected under the Paris Convention.<sup>139</sup>

### C. Dispute Settlement under TRIPS

#### 1. General Provisions

The TRIPS Agreement is composed of four main elements.<sup>140</sup> It first sets out the required minimum substantive standards for intellectual property protection, including the scope of the seven categories of intellectual property protection, the content of those protections, and their reach.<sup>141</sup> The TRIPS Agreement also provides for specific enforcement of intellectual property provisions.<sup>142</sup> Because one of the major purposes of the TRIPS Agreement is to foster free trade, the enforcement provisions are designed to be fair and equitable in the name of supporting free trade, while preventing abuse of the enforcement procedures.<sup>143</sup> Article 42 makes available civil procedures to protect against intellectual property theft under the TRIPS Agreement.<sup>144</sup> Article 51 requires protections against the importation of counterfeit goods at a country's borders.<sup>145</sup> Article 63 requires that member countries provide other member countries with laws, regulations, and case resolutions available under the transparency provision.<sup>146</sup> Importantly, Article 61 provides for criminal penalties and procedures in the case of willful counterfeiting or large scale commercial piracy.<sup>147</sup> The third element of the TRIPS

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however, that the protection of undisclosed information is limited to protection against unfair competition, much as it was protected under the Paris Convention. DE CARVALHO, *supra* note 130, at 29. In addition, use and loss rights and unfair competition are also "mentioned" by the Agreement but not detailed. *Id.*

<sup>139</sup> DE CARVALHO, *supra* note 130, at 30. *See also* Paris Convention, *supra* note 130.

<sup>140</sup> DE CARVALHO, *supra* note 130, at 30.

<sup>141</sup> *Id.* *See* TRIPS Agreement, *supra* note 32, Part II Standards Concerning the Availability, Scope and Use of Intellectual Property Rights.

<sup>142</sup> DE CARVALHO, *supra* note 130, at 30. *See* TRIPS Agreement, *supra* note 32, Part III, Enforcement of Intellectual Property Rights.

<sup>143</sup> DE CARVALHO, *supra* note 130, at 30.

<sup>144</sup> TRIPS Agreement, *supra* note 32, art. 42.

<sup>145</sup> *Id.* at art. 51.

<sup>146</sup> *Id.* at art. 63.

<sup>147</sup> *Id.* at art. 61.

Agreement is the dispute settlement provision under the WTO's dispute settlement procedures.<sup>148</sup>

## 2. Later-in-Time Doctrine Effect

The TRIPS Agreement is a non self-executing Agreement, meaning that member countries must adopt their own laws and regulations to make the provisions effective and are required to do so by virtue of their membership.<sup>149</sup> Like its predecessor agreements, the Paris Convention and Berne Convention, the TRIPS Agreement provides minimum standards which member countries are bound to respect; however, countries may extend intellectual property protections beyond those standards so long as those protections remain consistent with other agreement terms and provisions.<sup>150</sup> de Carvalho notes that despite the liberalization of its provisions, the TRIPS Agreement does not allow members to “modify obligations established by the Agreement, unless they are authorized by the Agreement itself.”<sup>151</sup> He notes further that “this means that implementing legislation may follow legal traditions and customary law, both dictated by repeated practices during a relevant period of time.”<sup>152</sup>

Under United States law, the later-in-time doctrine is applicable to the TRIPS Agreement. The United States Supreme Court held in *Breard v. Greene* that:

although treaties are recognized by our Constitution as the supreme law of the land, that status is no less true of provisions of the Constitution itself . . . “an Act of Congress . . . is on a full parity with a treaty, and that when a statute which is subsequent in time is inconsistent with a treaty, the statute to the extent of conflict renders the treaty null.”<sup>153</sup>

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<sup>148</sup> DE CARVALHO, *supra* note 130, at 31; TRIPS Agreement, *supra* note 32, art. 64.

<sup>149</sup> DE CARVALHO, *supra* note 130, at 59.

<sup>150</sup> *Id.* at 60, 62. One concrete example of the minimum standards established by TRIPS is the twenty year patent life protection, which experts agree may be extended by a member country in their own regulations and laws. TRIPS Agreement, *supra* note 32, art. 33.

<sup>151</sup> DE CARVALHO, *supra* note 130, at 64.

<sup>152</sup> *Id.*

<sup>153</sup> *Breard v. Greene*, 523 U.S. 371, 376 (1998) (quoting *Reid v. Covert*, 354 U.S. 1, 18 (1957)).

Thus, under the later-in-time doctrine, any law passed by Congress that is inconsistent with a prior treaty agreement supersedes the treaty. The Restatement of Foreign Relations Law also recognizes that United States domestic laws supersede international treaties or laws which cannot be consistently reconciled.<sup>154</sup> However, this does not reduce the obligation of the United States to uphold its international responsibilities, nor does it alleviate any potential consequences of a violation of international law.<sup>155</sup> Further, if a treaty is determined to be inconsistent with the United States Constitution, the treaty cannot come into effect.<sup>156</sup> At this time, the TRIPS Agreement has been given full effect by the United States and domestic laws have consistently afforded even greater protections than the minimum requirements under the TRIPS Agreement.<sup>157</sup>

*Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, vacated the order of the Ninth Circuit Court of Appeals dismissing a claim of intellectual property theft against the defendant, Grokster.<sup>158</sup> Plaintiffs, Metro-Goldwyn-Mayer Studios, alleged Grokster, a software distribution company, committed copyright infringement by distributing their free software which allowed peer-to-peer file sharing by direct computer communication.<sup>159</sup> Although Grokster's software was legal, it allowed users to share video, music, and other digital, copyright-protected files without proper authorization.<sup>160</sup> The Court noted the established principle that "[o]ne infringes contributorily by intentionally inducing or encouraging direct infringement."<sup>161</sup> The Court held in this case that, because Grokster knowingly distributed this software for the purpose of encouraging illegal file sharing, and because there was "evidence of the distributors' words and deeds going beyond distribution," Grokster showed intent "to cause and profit from third-party acts of copyright infringement."<sup>162</sup> This case is

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<sup>154</sup> Restatement (Third) of Foreign Relations Law of the United States § 115(1)(a) (1987).

<sup>155</sup> *Id.* § 115(1)(b).

<sup>156</sup> *Id.* § 115(3).

<sup>157</sup> See Part I of this article which discusses domestic intellectual property laws and their protections.

<sup>158</sup> *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 545 U.S. 913, 941 (2005).

<sup>159</sup> *Id.* at 920-21.

<sup>160</sup> *Id.* at 920-22.

<sup>161</sup> *Id.* at 930.

<sup>162</sup> *Id.* at 941. The Court remanded the case for further proceedings on the merits of MGM's claim and deemed it had substantial evidence to survive summary

a good example of the strict compliance United States courts require with laws protecting intellectual property and the high expectations of domestic enforcement of intellectual property protections.

### 3. Dispute Settlement Understanding

Annex 2 of the Uruguay Round Agreements details the dispute resolution mechanisms under the TRIPS Agreement.<sup>163</sup> The Dispute Settlement Understanding establishes the specific procedures for the WTO's settlement of disputes.<sup>164</sup> Under this mechanism, when a violation is discovered, a complainant country must first consult with the alleged violating member and try to reach a mutual agreement.<sup>165</sup> If no agreement is reached within sixty days of the consultation request and if the complainant does not believe a mutual agreement is likely, the complainant may request a panel.<sup>166</sup> A panel normally consists of three experts to whom both parties agree. The WTO Secretariat appoints the panel, which may be comprised of WTO staff, researchers, or WTO trade officials.<sup>167</sup> The panel considers the case using written and oral submissions and, if necessary, through consultation with experts.<sup>168</sup> The panel will issue an interim fact report and a draft report, followed by a final report. This process takes six to nine months before the panel reaches the final disposition.<sup>169</sup> Within sixty days thereafter, the Dispute Settlement Body ("DSB") must adopt the panel's final report.<sup>170</sup>

Either party to the dispute may appeal legal issues or interpretations made by the panel, but may not appeal any findings of fact.<sup>171</sup> On appeal, the WTO appellate body will consider the merits of the appeal and must complete proceedings within sixty or ninety days.<sup>172</sup> The permanent WTO appellate body is comprised of seven WTO members, who serve a term of four years. The appellate body is

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judgment. *Id.* at 940-41.

<sup>163</sup> Understanding on Rules and Procedures Governing the Settlement of Disputes, Marrakesh Agreement Establishing the World Trade Organization, Annex 2, 33 I.L.M. 1225, 1226 (1994) [hereinafter DSU].

<sup>164</sup> WATAL, *supra* note 117, at 60.

<sup>165</sup> DSU, *supra* note 163, art. 4.

<sup>166</sup> *Id.* at art. 4(7).

<sup>167</sup> WATAL, *supra* note 117, at 61. *See* DSU, *supra* note 163, art. 8.

<sup>168</sup> WATAL, *supra* note 117, at 61

<sup>169</sup> *Id.* *See* DSU, *supra* note 163, art. 15.

<sup>170</sup> WATAL, *supra* note 117, at 61. *See* DSU, *supra* note 163, art. 16.

<sup>171</sup> WATAL, *supra* note 117, at 61-62.

<sup>172</sup> *Id.* at 62. *See* DSU, *supra* note 163, art. 17.

“broadly representative of membership in the WTO.”<sup>173</sup> Three members of the appellate board, appointed by the DSB, hear an appeal.<sup>174</sup> The parties to the dispute must accept the appellate body’s report unreservedly.<sup>175</sup> Although the entire dispute resolution process should take between eighteen to twenty months from the filing of the complaint to the appellate body’s adoption of the report, generally these cases take much longer.<sup>176</sup> If a party is found to have violated the TRIPS Agreement, the panel recommends that the party’s actions be brought into conformity with the Agreement. Although these “recommendations” seem advisory, the violator must immediately comply with them, in a mutually agreeable time frame, not to exceed eighteen months.<sup>177</sup> Failure to comply in a timely manner may result in mutually agreed compensation. Retaliation, such as withdrawal of trade, is not allowed under the TRIPS Agreement, unless express authorization is provided from the DSB after a party fails to agree to appropriate compensable damages.<sup>178</sup>

#### 4. Reprisals

Because of their commitments to the WTO dispute resolution mechanisms under the TRIPS Agreement, members must comply with the above-outlined processes and procedures, rather than seek unilateral reprisals against allegedly violating countries. de Carvalho notes that of all the TRIPS Agreement complaints that have been filed in its ten years of existence, approximately half deal with patent infringements.<sup>179</sup> Of the twelve requests for consultations by the DSB that have been filed thus far, the United States was the complainant in seven cases and the respondent in two.<sup>180</sup> Only one of the complaints lodged at this time has been against China, and most have been resolved by mutual agreement or dismissed by the panel or appellate body.<sup>181</sup> In one case, a complaint by the United States against Canada

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<sup>173</sup> WATAL, *supra* note 117, at 62.

<sup>174</sup> *Id.* at 62.

<sup>175</sup> *Id.*

<sup>176</sup> *Id.* Although there are a number of factors that may contribute to this increased length of time to complete the dispute resolution process, Watal postulates often panel selection, logistical delays, and extensions of time are the major contributors. *Id.*

<sup>177</sup> *Id.* at 62-63.

<sup>178</sup> *Id.* at 63.

<sup>179</sup> DE CARVALHO, *supra* note 130, at 412.

<sup>180</sup> *Id.* at 412-15.

<sup>181</sup> Press Release from the Office of the United States Trade Representative,

for failure to grant patents a term of protection greater than seventeen years was resolved in favor of the United States.<sup>182</sup> In its eleven-year history in the WTO, the DSB has approved retaliatory measures in only two instances, which were unrelated to intellectual property rights.<sup>183</sup> However, the majority of intellectual property infringement cases under the TRIPS Agreement that undergo the WTO dispute resolution mechanism are settled by mutual agreement. This is a positive result in the respect that the consultations between countries seem to be fruitful and come to agreeable resolution without further legal process.<sup>184</sup> However, there does not seem to be any increased enforcement or protection of intellectual property rights or increased compliance by countries as a result of these processes, as shown by the Special 301 Report results.<sup>185</sup>

#### D. WTO Cases Under the TRIPS Agreement

Although the United States has filed complaints with the WTO for TRIPS Agreement violations, it has filed only three intellectual property rights violations under the TRIPS Agreement since 2000.<sup>186</sup> In one case, the United States filed a request for consultations on May

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Robert Zoellick, *U.S. and China Resolve WTO Dispute Regarding China's Tax on Semiconductors* (July 8, 2004), <http://www.ustr.gov> (follow "WTO" hyperlink; then follow "Dispute Settlement" hyperlink). Part III.D of this article will discuss the case in greater detail.

<sup>182</sup> DE CARVALHO, *supra* note 130, at 414.

<sup>183</sup> WATAL, *supra* note 117, at 63. See World Trade Organization Dispute Settlement-Index of Disputes Issues, [http://www.wto.org/english/tratop\\_e/dispu\\_e/dispu\\_subjects\\_index\\_e.htm#trips](http://www.wto.org/english/tratop_e/dispu_e/dispu_subjects_index_e.htm#trips) (last visited May 1, 2007). The two cases referred to by Watal included the complaint brought forward by the United States and Canada against the European Communities (WT/DS26, 48), which challenged the importation of meat from animals to which six growth hormones had been given. This case was brought in 1996 and has yet to be completely resolved. World Trade Organization Dispute Settlement-The Disputes-DS26, [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds26\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds26_e.htm) (last visited May 1, 2007). The second case is known as the "bananas case." In 1999, Mexico, Panama, Honduras, Guatemala, and the United States requested consultations against the European Communities ("EC"). The complaint centered around the EC "Regime for the Importation, Sale and Distribution of Bananas." In both of these cases, the DSB authorized retaliatory action. World Trade Organization Dispute Settlement-The Disputes-DS158, [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds158\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds158_e.htm) (last visited May 1, 2007).

<sup>184</sup> Cf. U.N Charter art. 33.

<sup>185</sup> United States Trade Representative, Special 301 Report (2006). Part III.E of this article will address the Special 301 Report.

<sup>186</sup> World Trade Organization Dispute Settlement-The Disputes, *supra* note 183.

30, 2000, against Brazil with respect to its insufficient patent protections. The United States asserted that Brazil's 1996 industrial property law was inconsistent with Brazil's obligations under the TRIPS Agreement.<sup>187</sup> Brazil's law established a "local working requirement" for the privilege of exclusive patent rights, which the United States asserted would impose compulsory licensing requirements on patents if the patents were not "worked" in Brazil.<sup>188</sup> The United States claimed that this requirement violated Articles 27 and 28 of the TRIPS Agreement.<sup>189</sup> Article 27 of the TRIPS Agreement, Section 1, provides that "patents shall be available and patent rights enjoyable without discrimination as to the place of invention, the field of technology and whether products are imported or locally produced."<sup>190</sup> Thus, Brazil's restriction of a "local working requirement" violated the TRIPS Agreement requirement that prohibits member discrimination against imported patented subject matter.<sup>191</sup> Further, Article 28 allows the owner of a patent right "where the subject matter of a patent is a process, to prevent third parties not having the owner's consent from the act of using the process, and from the acts of: using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process."<sup>192</sup> The United States argued that Brazil's definition of "failure to be worked as failure to manufacture or incomplete manufacture of the product or failure to make full use of the patented process to be inconsistent with their obligation under TRIPS."<sup>193</sup> Although the DSB assigned a panel to hear the dispute, the parties reported they came to a mutually satisfactory agreement on July 5, 2001.<sup>194</sup>

The United States also instituted consultations on May 30, 2000, against Argentina with regard to certain patent laws which the United States argued were inconsistent with TRIPS Agreement requirements under Articles 27 and 28.<sup>195</sup> Argentina's laws allegedly

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<sup>187</sup> World Trade Organization Dispute Settlement, Dispute DS199: Brazil-Measures Affecting Patent Protection, [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds199\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds199_e.htm) (last visited May 1, 2007).

<sup>188</sup> *Id.*

<sup>189</sup> *Id.*

<sup>190</sup> TRIPS Agreement, *supra* note 32, art. 27(1).

<sup>191</sup> World Trade Organization, Dispute DS199, *supra* note 187.

<sup>192</sup> TRIPS Agreement, *supra* note 32, art. 28(1)(b).

<sup>193</sup> World Trade Organization, Dispute DS199, *supra* note 187.

<sup>194</sup> *Id.* Information about the details or documents between the parties involved detailing how the dispute was resolved was not available.

<sup>195</sup> World Trade Organization Dispute Settlement, Dispute DS196: Argentina-

failed to protect patent rights and test data in many respects, including denial of certain exclusive protective rights, exclusion of micro-organisms and other patentable material from protection, absence of safeguard provisions for compulsory licenses, and improper limitations on transitional patents resulting in the denial of TRIPS protection to those patents.<sup>196</sup> An agreement was reached between the United States and Argentina in 2002.<sup>197</sup>

On March 18, 2004, the United States filed its most recent dispute with respect to intellectual property rights infringement under the TRIPS Agreement against China,<sup>198</sup> which remains the largest producer of counterfeit goods.<sup>199</sup> The United States Trade Representative, Robert B. Zoellick, reports that the fastest growing semiconductor market is in China and its exports of the same are worth over \$2 billion to American manufacturers.<sup>200</sup> China is also the third largest consumer of integrated circuits globally.<sup>201</sup> Exports of integrated circuits to China from the United States are supplemented by a seventeen percent Value Added Tax (“VAT”), although circuits produced in China are taxed considerably less because they receive a partial refund of that seventeen percent.<sup>202</sup> Thus, circuits from the United States cost comparatively more and in some cases the VAT tax on Chinese circuits may be as low as three percent after the refunds.<sup>203</sup> The USTR reports that China also gives a partial refund to circuits manufactured abroad, but designed in China.<sup>204</sup> These tax breaks conflict with the 1994 GATT Protocol on the Accession of the People’s Republic of China, as the WTO explicitly prohibits members from discriminating against foreign goods.<sup>205</sup> As a result, the United

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Certain Measures on the Protection of Patents and Test Data, [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds196\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds196_e.htm) (last visited May 1, 2007). The United States also argued the laws were inconsistent with Articles 31, 34, 39, 50, 62, 65, and 70. *Id.*

<sup>196</sup> *Id.*

<sup>197</sup> *Id.* Further detail on the settlement terms was not provided.

<sup>198</sup> World Trade Organization Dispute Settlement, Dispute DS309: China—Value-Added Tax on Integrated Circuits, [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds309\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds309_e.htm) (last visited May 1, 2007).

<sup>199</sup> See discussion *supra* Part II.D.

<sup>200</sup> Press Release from the Office of the USTR, *supra* note 181.

<sup>201</sup> *Id.*

<sup>202</sup> World Trade Organization, Dispute DS309, *supra* note 198.

<sup>203</sup> Press Release from the Office of the USTR, *supra* note 181.

<sup>204</sup> *Id.*

<sup>205</sup> World Trade Organization, Dispute DS309, *supra* note 198. See generally Part III.B.

States instituted a WTO action against China and other TRIPS members including Japan, Mexico and the European Communities joined the consultations.<sup>206</sup> By July 14, 2004, China had resolved its problem with the United States.<sup>207</sup> The United States notified the DSB that “China agreed to amend or revoke the measures at issue to eliminate the availability of VAT refunds on integrated circuits produced and sold in China and on integrated circuits designed in China but manufactured abroad by November 1, 2004, and September 1, 2004, respectively.”<sup>208</sup> China therefore has changed its policy and no longer unfairly favors its products while disfavoring trade partners.

The resolution of this dispute represents a significant step forward for the United States and all WTO and TRIPS Agreement members in the realm of dispute resolution. The United States’ claim against China was one of the more significant disputes for three main reasons: (1) it was the first action taken by any country against China; (2) it was financially crucial to the protection of a valuable industry and segment of industrial intellectual property for the United States; and (3) it represented the joint efforts of many member countries who voluntarily became parties to the action. As reported earlier, China is the major infringer of intellectual property rights globally. China is responsible for the greatest quantity of counterfeit products in the market, which costs the United States billions of dollars every year. For too long China has been allowed to continue this action through the inaction of other member countries, including the United States. The United States allowed the problem to intensify despite China’s repeated failure to honor bilateral and multilateral agreements attempting to resolve the problems. However, enforcement in China itself remains weak and must be addressed by the Chinese government, which has jurisdiction over the infringers and can exact criminal and high civil penalties. Further, the resolution of the semiconductor VAT issue was vital to the continued viability of intellectual property in the United States. It was a significant step that other member countries such as Mexico and the European Communities joined the action against China in the WTO. Making joint international efforts to combat blatant intellectual property and trade infringements will certainly be a key component in addressing the ways these rights can be better protected in the future.

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<sup>206</sup> World Trade Organization, Dispute DS309, *supra* note 198.

<sup>207</sup> *Id.*

<sup>208</sup> *Id.*

*E. The 2006 Special 301 Report*

As a part of the United States' ongoing efforts to target and alleviate global intellectual property theft, the "Special 301" provision of the amended Trade Act of 1974 mandated that the United States Trade Representative conduct yearly investigations of foreign countries' protection of intellectual property rights.<sup>209</sup> A country may be designated as a "Priority Foreign Country" if it has exceptionally egregious practices and a negative impact on the protection of U.S. intellectual property goods.<sup>210</sup> A country may also be designated a Priority Foreign Country if it fails to make significant progress in negotiations or if it fails to engage in good faith negotiations to address its adverse practices and policies.<sup>211</sup> Once a country has been designated as a Priority Foreign Country, the USTR must determine whether or not to begin a Special 301 investigation regarding the Priority Foreign Country status within thirty days of that designation.<sup>212</sup> If an investigation is conducted, the USTR must re-evaluate the offenses of that country within six months. At that time, the USTR may institute applicable Section 301 bilateral trade sanctions.<sup>213</sup> The USTR may also designate countries under the Special 301 "Priority Watch List" or the "Watch List."<sup>214</sup> The designation of Priority Watch List indicates a country has failed to provide sufficient intellectual property protections or enforcement mechanisms, or suffers from a lack of market access for those reliant upon intellectual property rights protection.<sup>215</sup> A Watch List designation means the USTR has found specific problems regarding market access, intellectual property enforcement, or protection.<sup>216</sup> Additionally, the USTR may conduct "Out-of-Cycle Reviews" at any time throughout the year and at that time may change the status of a country or identify a country under the appropriate designation.<sup>217</sup>

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<sup>209</sup> Trade Act of 1974, 19 U.S.C. § 2242 (2006).

<sup>210</sup> *Id.* See also Office of the United States Trade Representative, Special 301 Report (2006), <http://www.ustr.gov> (follow "Trade Sectors" hyperlink; then follow "USTR Focus on Intellectual Property and Innovation" hyperlink; then follow "2006 Special 301 Report" hyperlink).

<sup>211</sup> Special 301 Report, *supra* note 210, "Background on Special 301."

<sup>212</sup> *Id.*

<sup>213</sup> U.S. Department of State, The U.S. Special 301 Process, <http://usinfo.state.gov/journals/ites/0598/ijee/ipfact1.htm> (last visited May 1, 2007).

<sup>214</sup> Special 301 Report, *supra* note 210, "Background on Special 301."

<sup>215</sup> *Id.*

<sup>216</sup> *Id.*

<sup>217</sup> The U.S. Special 301 Process, *supra*, note 213.

The 2006 Special 301 Report investigated eighty-seven countries.<sup>218</sup> The USTR reported that China's disregard and lack of enforcement of intellectual property rights continues to be problematic.<sup>219</sup> The USTR stated that "[a]lthough this year's Special 301 Report shows positive progress in many countries, rampant counterfeiting and piracy problems continue to plague both China and Russia, indicating a critical need for stronger intellectual property protection in China and Russia."<sup>220</sup> The USTR determined that China will continue to remain on the Priority Watch List under heightened scrutiny.<sup>221</sup> The USTR recognized that China had made some progress towards correcting the abuse of intellectual property rights, specifically with anti-piracy campaigns; however, that progress was not sufficient to bring the country into compliance with WTO standards. The USTR reported that "overall piracy and counterfeiting levels in China remained unacceptably high."<sup>222</sup> The USTR characterized China's copyright infringement levels at "85 to 93 percent, indicating little to no improvement."<sup>223</sup> The USTR took into account economic losses in the United States due to China's lack of intellectual property protection and the overall threat to safety that counterfeit products presented.<sup>224</sup> Under the TRIPS Agreement, Article 63, to which China is a party, countries must be transparent as to the rights provided and enforcement exercised.<sup>225</sup> China, however, remains unwilling to make its intellectual property rights regime appropriately transparent.<sup>226</sup> Further, China is required to maintain criminal enforcement of intellectual property infringement under Article 61 of the TRIPS Agreement in order to deter criminals from future violations.<sup>227</sup> Again, China falls short of this obligation, as previously discussed with regard to the recent Supreme People's Court and Supreme People's Procuratorate declarations.<sup>228</sup>

As previously discussed, although China has passed laws to bring itself into compliance with international WTO requirements,

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<sup>218</sup> Special 301 Report, *supra* note 210, "Executive Summary."

<sup>219</sup> *Id.*

<sup>220</sup> *Id.*

<sup>221</sup> *Id.*

<sup>222</sup> Special 301 Report, *supra* note 210, "Priority Watch List."

<sup>223</sup> *Id.*

<sup>224</sup> *Id.*

<sup>225</sup> See the TRIPS Agreement, *supra* note 32, art. 63.

<sup>226</sup> Special 301 Report, *supra* note 210, "Priority Watch List."

<sup>227</sup> See the TRIPS Agreement, *supra* note 32, art. 61.

<sup>228</sup> See *supra* note 107 and text.

China fails to enforce these laws by neither prosecuting infringers nor instituting appropriate deterring punishments. In fact, the USTR investigation found that “China’s own 2004 data showed that it channeled more than 99 percent of copyright and trademark cases into its administrative systems and turned less than one percent of cases over to police.”<sup>229</sup> The USTR has identified this lack of criminal enforcement as a major reason for China’s overall lack of intellectual property rights protections.<sup>230</sup> China has made many empty promises but its lack of enforcement of its own laws as well as its failure to comply with the standards set forth by the TRIPS Agreement and obligations as a member of the WTO continues to cost American companies billions in lost intellectual property revenues.

There are a number of countries on the Priority Watch List, including Argentina, Brazil, India, Ukraine, and Russia.<sup>231</sup> Russia remained on the Priority Watch List for “serious concerns about the continued increase in optical disc pirate production [in Russian plants] and the growth of Internet piracy on Russian websites.”<sup>232</sup> These deficiencies explain why the USTR did not change Russia’s current status.

Currently, forty-eight countries are on the Priority Watch List, Watch List, or Section 306 Monitoring.<sup>233</sup> Included on the Watch List are Canada, Mexico, the Dominican Republic, Costa Rica, and Guatemala.<sup>234</sup> Although Costa Rica recently signed the Dominican Republic-Central America-United States Free Trade Agreement (“CAFTA-DR”) with the United States, Costa Rica remains on the Watch List because the USTR determined that this country continues to have problems “with respect to copyright piracy and trademark counterfeiting.”<sup>235</sup> The Dominican Republic similarly remains on the Watch List for its slow progress on many intellectual property protection issues, despite its obligations under CAFTA-DR.<sup>236</sup>

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<sup>229</sup> Special 301 Report, *supra* note 210, “Priority Watch List.”

<sup>230</sup> *Id.*

<sup>231</sup> *Id.*

<sup>232</sup> *Id.*

<sup>233</sup> *Id.*

<sup>234</sup> Special 301 Report, *supra* note 210, “Watch List.”

<sup>235</sup> *Id.* Part III.F of this article provides a detailed analysis of the CAFTA-DR Agreement.

<sup>236</sup> *Id.*

### F. CAFTA-DR

Nuno Pires de Carvalho notes that, although many believe the primary purpose of the TRIPS Agreement is the protection of intellectual property rights, protection is actually an incidental, and the Agreement's primary purpose is to promote free trade.<sup>237</sup> The Agreement's purpose is understandable when one considers that the TRIPS Agreement was adopted as a part of the creation of the WTO. This correlation only reinforces the important link between intellectual property and trade. For instance, protecting industrial designs clearly influences textile trade, just as the protection of geographical indications affects agriculture.<sup>238</sup> Protecting global intellectual property rights will help further international trade.

On August 5, 2004, the United States signed the CAFTA-DR Free Trade Agreement ("FTA") with Costa Rica, Guatemala, Nicaragua, the Dominican Republic, and Honduras.<sup>239</sup> Free trade agreements create free trade areas, "under which member countries agree to eliminate tariffs and non-tariff barriers on trade in goods within the FTA, but each country maintains its own trade policies, including tariffs on trade outside the region."<sup>240</sup> By securing markets for goods produced in member countries, the agreements promote economic growth and facilitate trade between countries.<sup>241</sup> Such agreements also seek to increase global economic growth and trade, stabilize trade to shield domestic manufacturers from unfair trade

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<sup>237</sup> DE CARVALHO, *supra* note 130, at 40.

<sup>238</sup> *Id.* at 41.

<sup>239</sup> J.F. Hornbeck, Specialist in International Trade and Finance: Foreign Affairs, Defense and Trade Division, The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) 1 (April 4, 2005) (unpublished Congressional Research Service Report for Congress, on file with The Library of Congress code RL31870), *available at* <http://www.opencrs.com/document/RL31870/2005-04-04%2000:00:00>. *See also* 19 U.S.C. §§ 4001-4111 (2006); CAFTA-DR, 43 I.L.M. 514, *available at* [http://www.ustr.gov/Trade\\_Agreements/Bilateral/CAFTA/CAFTA-DR\\_Final\\_Texts/Section\\_Index.html?ht=](http://www.ustr.gov/Trade_Agreements/Bilateral/CAFTA/CAFTA-DR_Final_Texts/Section_Index.html?ht=) [hereinafter CAFTA-DR]. CAFTA-DR was approved by El Salvador, Honduras, Nicaragua, and Guatemala respectively in 2006. *See* U.S. Government Export Portal, U.S.-CAFTA-DR Free Trade Agreement-How Can U.S. Companies Benefit, <http://www.export.gov/fta/complete/cafta/index.asp?dName=CAFTA>.

<sup>240</sup> William H. Cooper, Specialist in International Trade and Finance: Foreign Affairs, Defense and Trade Division, Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy 2 (August 1, 2006) (unpublished Congressional Research Service Report for Congress, on file with The Library of Congress code RL31356) *available at* <http://www.opencrs.com/document/RL31356>.

<sup>241</sup> *Id.* at 3.

practices, and maintain control over international trade to enhance national security.<sup>242</sup>

The United States House and Senate passed legislation implementing CAFTA-DR on July 28, 2005, and the CAFTA-DR Free Trade Agreement came into force on January 1, 2006.<sup>243</sup> Chapter 15 of CAFTA-DR addresses the protection of intellectual property rights and the detail provided to this area of law is much greater than that in free trade agreements of years past, including the North American Free Trade Agreement.<sup>244</sup> Although CAFTA-DR has been criticized with regard to its potential effects on developing countries and their access to products such as pharmaceutical patents for HIV-AIDS drugs, etc., its protection of intellectual property data in the United States exceeds current standards.<sup>245</sup> CAFTA-DR specifically addresses protection of trademarks, internet domain names, geographical indications, and copyrights and related rights. CAFTA-DR makes specific and detailed protection provisions for all of these areas of intellectual property and incorporates a number of other treaties including the TRIPS Agreement.<sup>246</sup> Countries party to the CAFTA-DR must accede to these other international intellectual property treaties.<sup>247</sup> Further, Article 15.11 delineates the rights and duties of members to the treaty in the event of an infringement of this agreement. Parties are subject to civil penalties, including payment of damages and profits received, attorneys' fees and costs, and seizure, or destruction of improper goods.<sup>248</sup> CAFTA-DR also provides for criminal procedures and remedies for any party's willful violation of intellectual property rights through production and dissemination of counterfeit or pirated goods.<sup>249</sup> The remedies that may be provided include monetary payment, imprisonment, and seizure among others.<sup>250</sup> Most significantly, the protections of the CAFTA-DR go

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<sup>242</sup> *Id.*

<sup>243</sup> H.R. 3045, 109th Cong. (2005); S. 1307, 109th Cong. (2005). The House of Representatives passed the legislation by a narrow margin of 217 to 215. H.R. 3045. The Senate passed the bill by nearly an equally close margin of 54-45. S. 1307.

<sup>244</sup> CAFTA-DR, *supra* note 239, ch. 15; *see also* North American Free Trade Agreement, Dec. 17, 1992, 32 I.L.M. 289 (pts. 1-3); 32 I.L.M. 605 (pts. 4-8.) (entered into force Jan. 1, 1994).

<sup>245</sup> Carlos M. Correa, *Bilateralism in Intellectual Property: Defeating the WTO System for Access to Medicines*, 36 CASE W. RES. J. INT'L L. 79, 85-86 (2004).

<sup>246</sup> CAFTA-DR, *supra* note 239, ch. 15.

<sup>247</sup> *Id.*

<sup>248</sup> *Id.* at ch. 15, art. 15.11(7)-(11).

<sup>249</sup> *Id.* at ch. 15, art. 15.11(26)(a).

<sup>250</sup> *Id.* at ch. 15, art. 15.11(26)(b)(c).

beyond those provided by the WTO and are many steps closer to meeting the needs of American businesses.<sup>251</sup>

The United States is correct in using free trade agreements such as CAFTA-DR to seek an increase in global recognition of intellectual property theft, global enforcement of intellectual property rights, and stiff monetary and criminal penalties for infringers. These agreements provide the United States with some leverage that is not only important for the economy in the context of free trade but also in the protection of the multi-billion dollar intellectual property industry.

In considering the success of CAFTA-DR, the status of the Dominican Republic, Costa Rica, and Guatemala in the Special 301 Report should be of particular concern.<sup>252</sup> Despite the higher protection requirements that bilateral free trade agreements and other treaties give to intellectual property rights, those protections are meaningless without strict enforcement and adherence to the agreement by all parties. It is clearly not enough that agreements and treaties purport to give greater protections to intellectual property holders if countries consistently fail to bring themselves into compliance with their obligations and duties to their fellow treaty signers. Although the level of infringements on intellectual property rights by the Dominican Republic, Costa Rica, and Guatemala are not near the level of China's infringements, a large problem remains in these countries and action must be taken to correct this issue. It seems unwise that the United States entered into lucrative agreements with these countries despite their already failing intellectual property protections. The United States should have insisted on more evidence of compliance before signing the CAFTA-DR, which would have perhaps given these countries greater incentives. The USTR Special 301 Report does commend each country for its efforts to increase intellectual property protections—but it also commends China for the same.<sup>253</sup> Implementing new legislation to increase protection and enforcement does take time. Thus, while it is fair to give these countries some leeway in addressing these problems, most experts agree improvement is not occurring fast enough and more must be done.

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<sup>251</sup> J.F. Hornbeck, *supra* note 239, at 21-23.

<sup>252</sup> See Special 301 Report, *supra* note 210, "Watch List."

<sup>253</sup> *Id.* at "Priority Watch List," "Watch List."

#### IV. FUTURE EFFORTS TO CURTAIL GLOBAL INTELLECTUAL PROPERTY THEFT

The United States government has undertaken a number of initiatives to combat current levels of intellectual property theft. The U.S. Department of Commerce announced three new initiatives to combat intellectual property theft on September 21, 2005.<sup>254</sup> Secretary of Commerce Carlos Gutierrez unveiled a new Small Business Outreach program that will work with American companies and assist them in protecting intellectual property.<sup>255</sup> The formation of a Global Intellectual Property Academy was also announced to coordinate various agencies from other governments to provide training to assist developing countries in understanding and enforcing intellectual property rights.<sup>256</sup> The Administration will appoint Intellectual Property Rights Experts to promote intellectual property rights and infringement enforcement in problematic countries such as China and Russia.<sup>257</sup>

In July 2005, the Administration appointed a new Coordinator of International Intellectual Property Enforcement to “work with agencies across the Administration to develop policies to address international intellectual property violations and enforce intellectual property overseas.”<sup>258</sup> Chris Israel, Deputy Chief of Staff for the Secretary of Commerce, leads the National Intellectual Property Law Enforcement Coordination Council’s (“NIPLECC”) international efforts to enforce intellectual property rights and is a key coordinator of the STOP! Initiative, another new program.<sup>259</sup> Both of these programs address intellectual property law issues. Congress created NIPLECC in 1999 to harmonize U.S. and international attempts at enforcing intellectual property laws.<sup>260</sup> However, according to testimony by Loren Yager, Director of International Affairs and Trade, at a Senate hearing in 2005, NIPLECC “has struggled to define its

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<sup>254</sup> Press Release, Hon. Carlos Gutierrez, *supra* note 14.

<sup>255</sup> *Id.*

<sup>256</sup> *Id.*

<sup>257</sup> *Id.*

<sup>258</sup> Press Release, Hon. Carlos Gutierrez, *supra* note 51.

<sup>259</sup> *Id.*

<sup>260</sup> *U.S. Efforts Have Contributed to Strengthened Laws Overseas, but Significant Enforcement Challenges Remain: Testimony Before the Senate Comm. on Homeland Sec. and Gov. Affairs, Subcomm. on Oversight of Gov. Management, the Fed. Workforce, and the District of Columbia*, 108th Cong. 10 (2005) (statement of Loren Yager, Director International Affairs and Trade).

purpose and has had little discernable impact.”<sup>261</sup> Criticisms from within the group have found NIPLECC to be unfocused, understaffed, and under-funded.<sup>262</sup>

STOP! began in October 2004 as a joint project between the Department of Homeland Security, U.S. Department of Justice, USTR, U.S. Department of Commerce, and the Bush Administration.<sup>263</sup> STOP! combines the efforts of these departments as well as the Food and Drug Administration and the State Department to achieve five major goals.<sup>264</sup> STOP! seeks to enforce intellectual property rights laws against criminal offenders, prevent counterfeit goods from crossing the borders into the United States, increase knowledge of American companies as to how to protect their intellectual property rights, keep counterfeit goods from getting into mainstream market supplies, and strengthen joint international efforts to curtail intellectual property theft.<sup>265</sup> A STOP! hotline exists for companies seeking intellectual property rights information or to report intellectual property rights related issues.<sup>266</sup> Thus far, the STOP! program seems to be making progress, particularly in its coordination efforts with American companies.<sup>267</sup>

International efforts at curtailing intellectual property theft remain weak, as illustrated by the results of the 2006 Special 301 Report.<sup>268</sup> Although the United States’ enforcement efforts have increased, the efforts of its foreign trading partners have not. As Yager noted in her testimony:

Although U.S. law enforcement does undertake international cooperative activities to enforce intellectual property rights overseas, executing these efforts can prove difficult. For example, according to DHS and Justice officials, U.S. efforts to investigate IPR violations overseas are complicated by a lack of jurisdiction as well as by the fact that U.S. officials must convince foreign officials to take action.<sup>269</sup>

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<sup>261</sup> *Id.*

<sup>262</sup> *Id.* at 11.

<sup>263</sup> *Id.* at 12.

<sup>264</sup> *Id.*

<sup>265</sup> *Id.*

<sup>266</sup> *Id.* at 13

<sup>267</sup> *Id.*

<sup>268</sup> See discussion of Special 301 Report, *supra* note 210, Part III.E.

<sup>269</sup> Statement of Loren Yager, *supra* note 260, at 16.

Thus, without recognition of the problem and cooperation by foreign governments, solving the problem of international intellectual property theft will be impossible. Yager also notes that, despite costs to the United States economy, intellectual property theft is not on the priority list of foreign affairs issues.<sup>270</sup> Economically, consumers are attracted to pirated goods such as digital media, because of the cheap upfront cost, while the incentives are huge for those in the pirating industry.<sup>271</sup>

Although many in the federal government do not recognize intellectual property theft as a major priority, there are some who do, such as the few members of Congress who voted to remove the United States from the realm of WTO dispute resolution.<sup>272</sup> On November 17, 2005, two bills were introduced in the House of Representatives to address intellectual property rights. House Concurrent Resolution 303, sponsored by Oregon Representative Peter DeFazio, was a bill “[u]rging the United States Trade Representative to take action to ensure that the People’s Republic of China complies with its obligations to protect intellectual property rights.”<sup>273</sup> The bill noted that despite China’s bilateral commitments made to the United States in 1992, 1995, and 1996, and despite its succession to the WTO and the TRIPS Agreement, China continued to violate international intellectual property standards.<sup>274</sup> The bill took notice of the fact that China’s infringements resulted in severe losses to the American economy and that manufacturers, the Administration, and the USTR have taken careful notice of the specific problems with China.<sup>275</sup> Further, the bill found China’s actions or lack of them unjustifiable.<sup>276</sup> The bill “urges the United States Trade Representative to take action under Section 301 of the Trade Act of 1971 . . . including the imposition of bilateral tariffs.”<sup>277</sup> The bill urged the USTR to file complaints with the WTO to force China to comply with its international obligations.<sup>278</sup> This measure was referred to the House Ways and Means Committee for consideration.<sup>279</sup> It has not been

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<sup>270</sup> *Id.* at 17.

<sup>271</sup> *Id.*

<sup>272</sup> *See* Part III.A: The World Trade Organization.

<sup>273</sup> H.R. Con. Res. 303, 109th Cong. (2005).

<sup>274</sup> *Id.*

<sup>275</sup> *Id.*

<sup>276</sup> *Id.*

<sup>277</sup> *Id.*

<sup>278</sup> *Id.*

<sup>279</sup> *Id.*

renewed in the 110th Congress.<sup>280</sup> Based on the text of the legislation, if the measure was renewed and passed both the House and Senate, it would have no real impact in holding China accountable for its lack of protection and empty promises because as a concurrent resolution, it lacks the force of law.

Similarly, Representative Darrell Issa from California introduced House Concurrent Resolution 230 with the purpose of expressing the opinion of Congress that the “Russian Federation should provide adequate and effective protection of intellectual property rights, or it risks losing its eligibility to participate in the Generalized System of Preferences (GSP) program.”<sup>281</sup> This measure passed the House 421 to 2 and passed the Senate on December 22, 2005.<sup>282</sup> Much like the resolution relating to China, this measure recognized the burdens posed on the United States economy by Russian theft of intellectual property and stated that the Russian government fails to adequately regulate blatant intellectual property theft in that country.<sup>283</sup> This measure has strong language condemning the acts of Russia. Again, although the measure may temporarily draw attention to the problem, as a concurrent resolution, it lacks the force of law. At best, the measure may shed more light on the problem of intellectual property theft with the intention of forcing the USTR, Congress, and the Administration to make the problem a priority.

Finally, eight industrialized nations who formed the Group of Eight (“G8”), recently convened and stated G8 would increase efforts to fight global counterfeiting and piracy, in recognition that organized crime often has a hand in such large scale operations.<sup>284</sup> The G8, composed of the United States, United Kingdom, Canada, Germany, Russia, Italy, Japan, and France, vows to increase studies of the problem, to increase detection, deterrence, and enforcement procedures and regulations, and to work closely with other government officials to increase awareness and international bonds to fight intellectual property theft.<sup>285</sup> Again, this is a significant international step in the right direction to bring together key countries to fight the problem and increase awareness and compliance.

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<sup>280</sup> *Id.*

<sup>281</sup> H.R. Con. Res. 230, 109th Cong. (2005).

<sup>282</sup> *Id.*

<sup>283</sup> *Id.*

<sup>284</sup> Press Release, G8, G8 Vows to Increase Fight Against Intellectual Property Theft (July 8, 2005), <http://usinfo.state.gov/ei/Archive/2005/Jul/08-989233.html>.

<sup>285</sup> *Id.*

## V. CONCLUDING REMARKS

The problem of global intellectual property theft has an enormous impact on the United States. In addition to the economic costs to businesses and the economy, counterfeit goods cost Americans jobs and negatively impact international relationships. China and Russia continue to be the top producers of counterfeit goods and rank among the worst countries for intellectual property theft.

The TRIPS Agreement represented a substantial step forward in terms of international laws protecting intellectual property rights. While dispute settlement through the WTO under the TRIPS Agreement has resolved some issues, only a limited number of disputes have been filed, and overall the impact has been weak. The 2006 Special 301 Report supports this conclusion, specifically with regard to China and Russia, who have failed to make significant intellectual property rights improvements. The United States continues to move forward in its mission to increase intellectual property protections through the use of its bilateral free trade agreements, most recently with the CAFTA-DR.

Further, the United States Congress continues to move forward with new legislation and administrative initiatives aimed at protecting intellectual property rights in this country and abroad. However, implementation and enforcement of these ideas is still questionable. It is yet to be seen if such initiatives will have an actual impact. Although there are no easy answers to this problem, the first step is international awareness and the banding together of countries to pressure those countries refusing to play by the rules. Both the United States and foreign legislatures need to make addressing this dilemma a priority. It is important to continue to work with countries such as China to educate and assist the government with enforcing its domestic and international intellectual property rights laws and obligations. The key to better protection of valuable intellectual property rights, whether in the United States or abroad, is strong enforcement of both domestic and international laws.