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Enforcement of Intellectual Property Rights Under the GATT 1994 TRIPS Agreement

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ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS UNDER THE GATT 1994 TRIPS AGREEMENT AGREEMENTS

SUMMARY

The United States initiated the effort to create intellectual property (IP) standards in trade-related agreements when it insisted that the Uruguay Round of the General Agreement on Tariffs and Trade ("GATT") include possible IP standards on the agenda for discussion. After eight years of negotiation, the GATT Members reached several agreements, including one on Trade-Related Aspects of Intellectual Property, Including Trade in Counterfeit Goods ("TRIPS Agreement"). This Agreement and the other GATT 1994 trade agreements were approved by the Congress in November 1994. Appropriate amendments were made to the intellectual property laws of the United States in the Uruguay Round Agreements Act of 1994 (URAA), Public Law 103-465, December 8, 1994.

The World Trade Organization (WTO), which was formed by the Uruguay Round trade agreements, took effect on January 1, 1995. The TRIPS Agreement took effect in developed countries on January 1, 1996.

This report summarizes and analyzes the parts of the TRIPS Agreement covering enforcement of IP rights and trade dispute prevention and settlement.

The enforcement standards and procedures of the TRIPS Agreement cover administrative and judicial procedures, civil and criminal penalties and procedures, and customs regulations. The enforcement provisions are intended generally to ensure expeditious remedies to prevent infringement and to deter future infringements. The procedures must be fair and equitable, not unnecessarily complicated or costly, and must not entail unreasonable time-limits or unwarranted delays. The procedures must be applied to avoid the creation of barriers to legitimate trade and to safeguard against their abuse.

Criminal penalties and procedures must be available at least in the case of willful trademark counterfeiting or copyright piracy on a commercial scale. Minimum border enforcement procedures are also mandated.

The TRIPS Agreement incorporates by reference the Dispute Settlement Understanding of the GATT 1994, which establishes elaborate and effective mechanisms to resolve trade disputes including disputes about compliance with the intellectual property substantive rights and enforcement standards of the TRIPS Agreement. Overall, the enforcements standards, in combination with the dispute settlement procedures, substantially satisfy the policy objectives of the United States in the IP field.

Through the Office of the United States Trade Representative, the United States continues to invoke "special 301" Trade Act procedures to enforce intellectual property rights unilaterally. The United States has also initiated WTO dispute settlement proceedings against Japan, Canada, Portugal, India, Pakistan, and Turkey for failure to protect IP rights in certain respects.

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ENFORCEMENT OF INTELLECTUAL PROPERTY RIGHTS UNDER THE GATT 1994 TRIPS AGREEMENT

The United States initiated the effort to create intellectual property (IP) standards in trade-related agreements when it insisted that the Uruguay Round of the General Agreement on Tariffs and Trade ("GATT") include possible IP standards on the agenda for discussion. That idea came to fruition first in the North American Free Trade Agreement (NAFTA).[1] Following acceptance of the NAFTA by the United States Congress, the United States also reached an agreement with its GATT trading partners about the content of the Uruguay Round agreements.

This report summarizes and analyzes Part III (Enforcement of IP Rights) and Part V (Dispute Prevention and Settlement) of the GATT 1994 Agreement on Trade-Related Aspects of Intellectual Property, Including Trade in Counterfeit Goods ("TRIPS" or the "Agreement").[2] The new World Trade Organization ("WTO") became effective January 1, 1995. The TRIPS Agreement took effect for developed countries on January 1, 1996.

The United States implemented the obligations of the TRIPS Agreement in the Uruguay Round Agreements Act of 1994 ("URAA").[3] Substantive changes were made to the United States patent, copyright, and trademark laws. Among the major changes were: a change in computation of the utility patent term from 17 years from issuance to 20 years from filing; grant of a permanent computer program rental right; and restoration of copyright in foreign works that fell into the United States public domain for failure to comply with pre-1989 formalities.[4]

From the inception of the effort to incorporate IP standards in a trade-based agreement, the United States has been equally concerned with achieving both an appropriate level of substantive rights and with enforcement of those rights. The existing intellectual property conventions have made great strides

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[1] *See*, two other CRS reports for Congress by Dorothy Schrader: "Intellectual Property Provisions of the NAFTA", CRS 94-59A, and "Enforcement of Intellectual Property Rights Under the NAFTA", CRS 94-72A.

[2] The Agreement on Trade-Related Aspects of Intellectual Property, Including Trade in Counterfeit Goods, the so-called TRIPS Agreement, is one of several separate agreements reached by the GATT Members at the conclusion of the Uruguay Round. The Members also agreed to the establishment of a World Trade Organization (WTO), which largely supersedes the GATT 1947 and encompasses the agreements that are included in the GATT 1994. Unless otherwise indicated, all references to articles of the GATT 1994 refer to the provisions of the TRIPS Agreement, Annex 1C of the Agreement Establishing the World Trade Organization. Citations will be given as "GATT 1994, Art. ___."

[3] Public Law 103-465, 108 Stat. 4809, 4811, Act of December 8, 1994.

[4] For more details on the URAA substantive amendments, see CRS Report for the Congress by Dorothy Schrader, "Intellectual Property Provisions of the GATT 1994 and the Uruguay Round Agreements Act," CRS 94-302A.

in establishing effective substantive rights in most fields of intellectual property. These rights-based conventions have not, however, generally attempted to establish norms about enforcement of those rights. Given that enforcement of rights is heavily procedural and given the wide divergences in procedure in the jurisprudence of various countries, it was not considered practical, until recent years, to attempt to regulate enforcement in a rights-based convention.[5]

The Berne Convention [6] in the copyright field, for example, simply provides infringing copies shall be liable to seizure in any country where the work enjoys protection.[7] Each member country must, of course, be in a position to give effect to the rights and obligations of the Berne Convention under its domestic law.[8] Otherwise, the Berne Convention is essentially silent about enforcement of the important rights that it safeguards.

In the GATT 1994 TRIPS Agreement, the Members of GATT-WTO have agreed to quite detailed provisions related to enforcement of intellectual property rights. These enforcement provisions cover administrative and judicial procedures, civil and criminal penalties and procedures, and customs regulation. The 1994 GATT also includes an elaborate dispute settlement procedure, which is incorporated in a separate document known as the "Understanding on Rules and Procedures Governing the Settlement of Disputes" ("DSU"). These detailed rules establish the mechanisms to resolve trade disputes, including features such as a Dispute Settlement Body, consultation, the convening of panels and expert review groups, appeal to an Appellate Body, and implementation of Dispute Settlement Body decisions.

I. GENERAL ENFORCEMENT PROVISIONS OF THE TRIPS AGREEMENT RELATING TO INTELLECTUAL PROPERTY

Article 41 of the TRIPS Agreement establishes general procedures relating to enforcement of intellectual property rights. Each country must

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[5] Under pressure from the GATT negotiation process, the World Intellectual Property Organization ("WIPO"), headquartered in Geneva, Switzerland, a few years ago began a work program relating to a possible dispute settlement treaty to which members of the rights-based conventions could adhere. (WIPO administers most of the intellectual property rights conventions.) This original concept of a WIPO-administered dispute settlement treaty was later transformed into the existing WIPO Arbitration Center, which offers arbitration services in the fields of intellectual property. In addition, the proposed "Protocol" to the Berne Convention contains special enforcement provisions relating to copyright subject matter. The Berne "Protocol" now takes the form of a special draft treaty which will be formally considered by governments at a Diplomatic Conference in Geneva, Switzerland in December 1996.

[6] Berne Convention for the Protection of Literary and Artistic Works, last revised at Paris in 1971 (Hereafter, "Berne Convention").

[7] Article 16 of the Berne Convention.

[8] Article 36 of the Berne Convention.

include their domestic laws the enforcement procedures of Articles 41 through 61 in order to provide effective protection against infringement of the rights covered by the GATT 1994 TRIPS Agreement. In summary, these procedures must ensure expeditious remedies to prevent infringement and remedies to deter future infringements.[9] The enforcement procedures must be fair and equitable, not unnecessarily complicated or costly, and must not entail unreasonable time-limits or unwarranted delays.[10] The procedures must be applied to avoid the creation of barriers to legitimate trade and to safeguard against abuse of procedures.[11]

The enforcement procedures can be invoked on petition of the right holder, which is defined to include not only the owner of an intellectual property right that has allegedly been infringed, but also federations and associations that represent individual rights holders.[12]

The TRIPS Agreement establishes minimum due process standards. This is a signal achievement, given the need to reconcile the major jurisprudential differences between common law and civil code systems. The procedures may be either judicial or administrative in nature.[13] Decisions on the merits should preferably be stated in writing and include the reasons for the outcome. The decision must be available to the parties without undue delay and must be based only on the evidence on which the parties were given an opportunity to be heard.[14]

Although the initial proceedings may be either administrative or judicial, the parties in a proceeding shall have a right of judicial review of final administrative decisions and, subject to domestic jurisprudential rules concerning the significance of a case, shall have the right to appellate court review of the legal aspects of an initial judicial decision.[15] There is, however, no obligation for appellate court review of an acquittal in a criminal infringement case.[16]

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[9] GATT 1994, Art. 41(1).

[10] GATT 1994, Art. 41(2).

[11] GATT 1994, Art. 41(1).

[12] GATT 1994, Art. 42.

[13] GATT 1994, Art. 49.

[14] GATT 1994, Art. 41(3).

[15] GATT 1994, Art. 41(4).

[16] *Id.*

Finally, there is no obligation to establish a separate judicial system to enforce the intellectual property rights of the TRIPS Agreement. The obligations of Articles 41 through 61 can be met under a country's usual judicial system for enforcement of laws in general.[17]

II. SPECIFIC PROCEDURES AND REMEDIES FOR CIVIL JUDICIAL AND ADMINISTRATIVE ENFORCEMENT

Articles 42-49 set out minimum civil procedures and remedies that must be available to a right holder in a Member country in order to enforce intellectual property rights.

All parties to a civil proceeding are entitled to substantiate their claims and present relevant evidence. The procedures must not be overly burdensome relating to mandatory personal appearances, and must include a means to identify and protect confidential information. Parties are allowed to arrange for independent legal counsel. Defendants must be given written notice of the basis of any infringement claim; the notice must be timely in relation to remedies that might be invoked against the defendant and must give sufficient detail to enable the defendant to respond.[18]

The judicial authorities must have a combination of procedural and remedial powers at their disposal. These powers are very familiar to the United States common law system. In summary, the court must have the authority to: order cessation of an infringement; stop importation; order payment of damages; order remuneration of the right holder's expenses, including attorney's fees; order the production of evidence (subject to protection of confidential information); deal with refusals by a party to allow access to relevant evidence without good reason; and deal with rights holders who abuse the procedures.[19]

The power to enjoin an infringement is ordinarily one of the remedies under intellectual property laws. The TRIPS Agreement also requires that the judicial authority have the power to halt importation of infringing goods at least immediately after the customs service clears the goods for distribution.[20] The authority to assess damages must exist where the infringer knew or had reasonable grounds to know he, she, or it was engaged in infringing activity.[21] Also, in appropriate cases, a Member may authorize recovery of profits or payment of pre-established damages even in cases of innocent infringement, that is, where a person is unaware of the infringement and had no reason to know

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[17] GATT 1994, Art. 41(5).

[18] GATT 1994, Art. 42.

[19] GATT 1994, Arts. 43-48.

[20] GATT 1994, Art. 44(1).

[21] GATT 1994, Art. 45(1).

of the infringement.[22] Liability for innocent or unconscious infringement is well-settled under United States copyright law, although innocence is usually a mitigating factor in assessing the amount of damages.[23]

There is no obligation to bar importation of infringing goods in the case of items acquired or ordered by a person before the person knew or had reason to know that the items were infringing.[24] To protect against abuse of these strong enforcement measures (for example, in seeking to bar importation of allegedly infringing goods), the party who initiates an enforcement proceeding, and then abuses the process, must pay adequate compensation to any party wrongfully enjoined.[25] Adequate compensation may include reimbursement of attorney's fees, as well as the expenses related to the proceeding.[26]

The provisions with respect to discovery are especially noteworthy. While the rules of civil procedure in the United States allow broad discovery rights, discovery is less available in most other countries. The judicial authorities of a Member country must have the power to order an opposing party to produce evidence (subject to considerations of confidentiality) where one party has evidence in support of its claims and further evidence to substantiate the claim is within the control of the opposing member.[27] If a party in a proceeding refuses access to evidence without good reason, or significantly impedes a proceeding, the court may be empowered to make preliminary and final determinations in the proceeding nevertheless on the basis of the evidence presented, including the complaint or allegations presented by the party denied access to further evidence.[28]

With respect to seizure and destruction of infringing goods, the courts must be empowered to order their disposal outside the channels of commerce

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[22] GATT 1994, Art. 45(2).

[23] Under United States law, statutory damages are ordinarily available from $500 to $20,000, in the discretion of the court, for each work infringed. The Copyright Act, Title 17 U.S.C. section 504(c)(1). If the defendant can prove he, she, or it was an innocent infringer, the court may reduce the award of statutory damages to $200 for each work infringed. 17 U.S.C. section 504(c)(2). The court cannot award any statutory damages if the innocent infringer is an employee or agent of a nonprofit educational institution, library, or archives who believed section 107 (fair use exemption) excused the infringement, or a public broadcaster employee who believed section 118 justified the use. *Id.*

[24] GATT 1994, Art. 44(1).

[25] GATT 1994, Art. 48.

[26] *Id.*

[27] GATT 1994, Art. 43(1).

[28] GATT 1994, Art. 43(2). The TRIPS Agreement entails a lesser obligation than Article 1715(2)(b) of the NAFTA which says a court *must* have this authority.

(unless this power is contrary to existing constitutional requirements) and to order destruction of infringing goods, without compensation in either case.[29] With respect to the articles or implements used to commit an infringement (for example, videocassette recorders; computer tapes or discs; and audio recording equipment), the court must be empowered to order their disposal outside of the channels of commerce if the predominant use of the article was to create infringing goods.[30] The method of disposal must minimize the risk of future infringement, and the infringer shall not be compensated for the articles seized.[31] In ordering seizure and destruction (or disposal), the court shall take account of the seriousness of the infringement, the other remedies available, and the interests of other persons.[32]As a rule, the simple removal of an unlawful trademark from counterfeit goods does not justify release of the goods into commerce.[33]

Where a Member country's law allows the ordering of a civil remedy on the merits of a case as a result of administrative procedures, those procedures shall conform in principle and in substance to the judicial procedures set out in Articles 42-48.[34]

Governmental authorities and officials shall be exempt from liability in enforcing intellectual property rights if their actions are taken or intended in good faith.[35] If a Member government is sued for infringement of a patent or layout design right, the remedies against the government may be limited to payment of adequate remuneration pursuant to Article 31(h) provided the other conditions of that article are met.[36] The TRIPS Agreement purports to apply the remedies of Articles 41-61 to infringement by the government of any other rights,[37] but there is a proviso which negates the principle. If the other remedies are inconsistent with national law, then only the remedies of declaratory judgments and adequate compensation are required.[38]

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[29] GATT 1994, Art. 46.

[30] *Id.*

[31] *Id.*

[32] *Id.*

[33] *Id.*

[34] GATT 1994, Art. 49.

[35] GATT 1994, Art. 48(2).

[36] GATT 1994, Art. 44(2).

[37] *Id.*

[38] *Id.*

III. PROVISIONAL MEASURES

Expedited relief is an important characteristic of effective and adequate intellectual property protection. The ability to enjoin the infringement as soon as possible deters other infringers, and deprives the infringer of time to dispose of infringing goods and articles. Also, assessment of damages may not fully compensate the rights holder: damages may be difficult to quantify, or the infringer may lack the resources to pay. The IP enforcement provisions of the GATT 1994 TRIPS Agreement therefore include so-called "provisional measures," that is, judicial authority to order prompt and effective relief to prevent infringement, to prevent entry of allegedly infringing goods into commerce, and to preserve relevant evidence.[39]

An applicant for provisional measures must provide sufficient evidence to establish who is the rights holder, and to persuade the court that the infringement is imminent and that any delay in relief is likely to cause irreparable harm or risk destruction of the evidence of the infringement.[40] These are the general standards for issuance of temporary restraining orders (TRO) under the jurisprudence of the United States. This relief is commonly available in United States courts, especially in cases of copyright and related rights, and trademark infringement.

The courts shall be empowered to require the rights holder to post a bond (or give equivalent assurance) to protect the rights of the defendant and to prevent abuse of the provisional relief procedure.[41] They must also have authority to require that applicants for provisional measures supply the information necessary to identify the relevant goods.[42]

In one of the most important enforcement measures, the courts must be empowered to order provisional measures in *ex parte* proceedings (i.e., one party appears initially), especially where delay is likely to cause irreparable harm or there is a demonstrable risk evidence of infringement might be destroyed.[43] *Ex parte* proceedings, while providing extraordinary relief, are a necessary enforcement technique in dealing with fairly large scale, commercial piracies. The temporary restraining order and the order to seize infringing goods and articles are powerful weapons in controlling commercial piracy. The court is much less likely to issue these order *ex parte* in dealing with lesser infringements.

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[39] GATT 1994, Art. 50.

[40] GATT 1994, Art. 50(1).

[41] GATT 1994, Art. 50(3).

[42] GATT 1994, Art. 50(3).

[43] GATT 1994, Art. 50(2). The TRIPS Agreement actually uses the phrase *inaudita altera parte* to refer to *ex parte* proceedings.

To protect the due process rights of the defendant, these *ex parte* procedures shall provide for notice to the defendant without delay and no later than immediately after execution of the initial orders[44] (TRO) and seizure order, typically). Within a reasonable period after receiving notice of the orders, the defendant must have the right to be heard, and the court must consider whether to modify, revoke, or confirm the provisional orders.[45] The TRIPS Agreement even regulates the period of time the provisional orders may remain in force without taking steps to render a decision on the merits. That period is 20 working days of 31 calendar days, whichever is longer unless a different reasonable period is determined by the judicial authority ordering the provisional measures.[46] On petition of the defendant, the court shall revoke its orders or otherwise cease to apply them if the plaintiff fails to press for a decision on the merits within a reasonable period of time, in accordance with domestic law, and absent such a standard in domestic law, within the time period set by Article 50(6) of the Agreement.

In cases where there is a finding of no infringement or where the provisional measures are revoked or lapse due to an act or omission of the plaintiff, the court shall have authority to assess appropriate compensation by the plaintiff to the defendant.[47]

As in the case of ordinary civil remedies, if domestic law allows issuance of provisional orders as a result of administrative procedures, those procedures shall conform in principle and in substance to the judicial procedures of Article 50.[48]

IV. CRIMINAL PROCEDURES AND PENALTIES

Criminal penalties for infringement of intellectual property rights and vigorous enforcement of the penalties constitute the most effective weapon against large-scale piracies, especially in the fields of copyright and trademark. Some piratical activities are so profitable that unscrupulous persons are not deterred by the strongest civil remedies. These persons regard civil remedies simply as a cost of doing business, if they are caught. Frequently, if held liable as an infringer in one locality, they simply move the "piracy business" to another location and continue their infringing activity. Strong criminal penalties are therefore necessary to check certain forms of piracy. The United States is one of only a few countries that impose significant criminal penalties for

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[44] GATT 1994, Art. 50(4).

[45] *Id.*

[46] GATT 1994, Art. 50(6).

[47] GATT 1994, Art. 50(7).

[48] GATT 1994, Art. 50(8).

infringement of intellectual property rights.[49]

The GATT 1994 TRIPS Agreement makes important progress in requiring a Member to apply criminal procedure and penalties at least in the case of willful trademark counterfeiting or copyright piracy on a commercial scale.[50] These criminal penalties shall include imprisonment, monetary fines, or both, sufficient to deter infringement in comparison with other crimes of corresponding gravity.[51] A Member may provide criminal penalties for infringement other than copyright and trademark violations, if the infringement is willful and on a commercial scale.[52]

The courts shall be empowered, in appropriate cases, to order the seizure, forfeiture and destruction of infringing goods and of the materials and articles the predominant use of which has been to commit criminal infringement.[53]

This commitment to invoke criminal penalties should have a salutarious effect in controlling piracy of sound recordings, motion pictures, and computer software and trademark counterfeiting. American IP industries regret, however, the implementation delays extended to developing countries (5 years), transition economy countries (5 years), and least-developed countries (11 years).[54]

V. CUSTOMS (OR BORDER) ENFORCEMENT

It is not surprising that provisions relating to border enforcement should be a cornerstone of a trade-based agreement affecting intellectual property. Importation restrictions and tariffs are the hallmarks of a protectionist trade

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[49] The penalties of United States law for criminal infringement of copyright (which can apply only if the infringement is both willful and for commercial gain) may range up to a maximum fine of $250,000 for an individual offender and $500,000 for a guilty organization; up to five years in jail for certain large-scale first offenders and up to ten years in jail for second and subsequent large-scale offenders; or both the fine and jail term. Title 18 U.S.C., section 2319. The penalties for knowingly trafficking in counterfeit trademark goods are even stronger than the penalties for criminal copyright infringement. For the first offense, an individual can be fined up to $250,000 or imprisoned for five years, or both; an organization can be fined up to $1,000,000. For subsequent offenses, an individual can be fined up to $1,000,000 and imprisoned 15 years, or both; an organization can be fined up to $5,000,000. Title 18 U.S.C., section 2320.

[50] GATT 1994, Art. 61.

[51] *Id.*

[52] *Id.*

[53] *Id.*

[54] GATT 1994, Art. 65(2)-(3) and Art. 66(1).

policy. Negative import controls and regulations must be addressed in a free trade agreement to assure free circulation of legitimate goods and access to markets. Positive customs procedures (that is, those are appropriate and necessary to curtail piracy) are naturally also addressed in an agreement dealing with enforcement of intellectual property rights. Articles 51-60 of the GATT 1994 TRIPS Agreement establishes a commitment to effective and adequate enforcement of the intellectual property rights covered by the TRIPS Agreement.

Again, like the criminal provisions, the strongest border enforcement measures in the field of intellectual property must be available to protect against trademark counterfeiting and copyright piracy. Each Member country shall adopt customs procedures to enable a rights holder who has valid grounds for suspecting imminent importation of counterfeit trademark goods or pirated copyright goods to present the competent authorities (administrative or judicial) with a written complaint for customs to prevent release of the infringing goods for distribution within that country.[55] There is no obligation to provide this relief in the case of goods in transit or goods put on the market in another country with the consent of the right holder (i.e., gray market goods).[56] Also, there is no obligation to apply the measures at a border where a Member dismantles most of its customs controls and joins a customs union with another Member.[57]

A Member country may adopt the same procedures with respect to other kinds of infringing goods than copyright and trademark violations, provided the procedural requirements of Articles 51-60 are met.[58] Similarly, a country may adopt corresponding enforcement procedures with respect to release of infringing goods for export.[59]

To minimize the enforcement burden on governments and to assure the rights of defendants, a Member country shall require the person petitioning for customs enforcement to provide sufficient evidence to establish a prima facie case for infringement, and to supply a detailed description of the infringing goods.[60] The competent authorities have an obligation to inform the petitioner-complainant within a reasonable period of time whether or not they accept the complaint.[61]If they accept the complaint, the authorities must inform the petitioner of the time period during which enforcement action will

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[55] GATT 1994, Art. 51.

[56] Footnote 13 of the GATT 1994, appended to Art. 51.

[57] Footnote 12 of the GATT 1994, appended to Art. 51.

[58] GATT 1994, Art. 51.

[59] *Id.*

[60] GATT 1994, Art. 52.

[61] *Id.*

take place where they have determined what that period will be.[62] The authorities shall be empowered to require that the complainant post a bond (or give equivalent assurances) sufficient to compensate the defendant for any damage if no infringement is found, to protect the government authorities, and to prevent abuse of the procedures.[63] The amount of the bond shall not, however, unreasonably deter recourse by rights holders to the enforcement procedures.[64]

As another safeguard for defendant's rights, the customs administration shall promptly notify the importer, as well as the complainant, when it holds up the release of goods pursuant to an appropriate infringement complaint.[65] The customs administration shall lift the hold on the goods if, within ten working days after the complainant receives notice of the holding action, customs has not been informed that either the complainant has initiated proceedings leading to a decision on the merits or that the competent authority has issued a provisional order.[66] Customs may, however, extend the holding action another ten working days in appropriate cases.[67]

With respect to certain kinds of allegedly infringing goods, the owner of the goods must have the right to obtain their release from customs by posting a security bond sufficient to compensate the rights holder, if infringement is found. The right of the owner of the goods to post a bond applies to industrial designs, patents, layout designs of integrated circuits or trade secret property rights.[68]The right to post a bond is triggered if customs holds up the release of the goods on the basis of a decision other than by a court or other independent authority, the period set by Article 55 (essentially 10 working days) expires without issuance of a provisional order, and there has been compliance with all other conditions for importation.[69] It is noteworthy that release of allegedly infringing copyright or trademark goods cannot be obtained by posting a security bond. This differentiated treatment reflects the vulnerability of copyrights and trademarks to commercial piracy and the high probability that a court will issue provisional orders because the existence of the right and its infringement are comparatively easy to prove. By contrast, patents and industrial designs may be hard to vindicate because a high percentage of issued patents are not upheld.

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[62] *Id.*

[63] GATT 1994, Art. 53(1).

[64] *Id.*

[65] GATT 1994, Art. 54.

[66] GATT 1994, Art. 55.

[67] *Id.*

[68] GATT 1994, Art. 53(2).

[69] *Id.*

Once a proceeding leading to a decision on the merits is initiated, the defendant is entitled to a review of the enforcement action, with a right to be heard.[70] A decision shall be made within a reasonable time period to modify, revoke, or confirm the enforcement action.[71] If, however, the goods are detained under a provisional judicial measure, then Article 50(6) governs. This means that the review of the enforcement action must take place within a reasonable period as determined by judicial authority, if domestic law so provides, or within 20 working days or 31 calendar days, whichever period is longer.[72]

The competent authorities must be empowered to order a complainant to pay appropriate compensation to the importer, consignee, and owner of the goods for any injury caused by wrongful detention of goods if the goods are ultimately released pursuant to Article 55 (complainant has neither initiated a proceeding on the merits nor has the competent authority issued a provisional order within 10 days of notice of detention).[73]

The competent authorities must give the rights holder sufficient opportunity to inspect the detained goods in order to substantiate its claims.[74] The importer must be given an equivalent opportunity to inspect the detained goods.[75]

Where applicable, the confidential nature of information must be protected, while allowing inspection of the allegedly infringing goods.[76]

In cases where the competent authorities make a positive determination on the merits, a Member country may empower the authorities to inform the rights holder of the names and addresses of cosigner, importer, and consignee, and of the quantity of goods.[77]

Where the competent authorities are empowered to act on their own initiative to detain goods based on a *prima facie* case for infringement, 1) the authorities may seek information from the rights holder at any time to assist them; 2) the importer and the rights holder shall be notified promptly of the detention; 3) the importer may lodge an appeal subject to Article 55 (essentially

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[70] GATT 1994, Art. 55.

[71] *Id.*

[72] *Id.*

[73] *Id.*

[74] GATT 1994, Art. 57.

[75] *Id.*

[76] *Id.*

[77] *Id.*

the rights holder has 10 working days to initiate a proceeding or obtain provisional relief); and 4) the government officials shall only be exempt from liability if their actions are taken or intended in good faith.[78]

The competent administrative authority shall be empowered, subject to judicial review, to order destruction or disposal of infringing goods in accordance with the principles of Article 46 (disposal outside channels of commerce or destruction if constitutionally permissible, without compensation to importer).[79] The TRIPS Agreement is silent about the authority of administrative agencies to dispose of the articles or implements predominantly used to engage in the infringement. Ordinarily, these articles or implements would not be imported, but, if they are, the decision to order disposal would be made by the courts.[80] Since the articles may be used for non-infringing purposes, it is difficult to make a decision on the merits at the administrative level, and therefore the TRIPS Agreement does not require such administrative authority.

With respect to counterfeit trademark goods, the competent authorities shall not allow re-export of infringing goods in an unaltered state or subject them to a different customs procedure other than in exceptional circumstances.[81]

Small quantities of goods of a non-commercial nature contained in the personal luggage of a traveller may be excluded from the customs enforcement procedures of Articles 51-59.[82] Similarly, a government does not have to apply Articles 51-59 to small consignments.[83] These exclusions reflect respect for the privacy interest of individual travellers, and also the concept that these effective but expensive procedures shall be applied where significant quantities of infringing goods are implicated.

VI. DISPUTE PREVENTION AND SETTLEMENT

When the United States pressed for inclusion of intellectual property standards on the agenda of the GATT Uruguay Round, our policy objectives

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[78] GATT 1994, Art. 58.

[79] GATT 1994, Art. 59.

[80] Recall that in cases of criminal infringement of trademarks and copyrights on a commercial scale, the penalties must include judicial authority to order seizure, forfeiture and destruction of any materials and implements used predominantly in the commission of the criminal offense. GATT 1994, Art. 61.

[81] GATT 1994, Art. 59. This clause departs from the NAFTA, Article 1718(12), which presumably covers *copyright* counterfeit goods as well as trademark goods.

[82] GATT, 1994, Art. 60.

[83] *Id.*

covered both substantive rights and enforcement of those rights. Arguably, the enforcement provisions were the more important because existing rights-based conventions provide adequate levels of protection in most fields of intellectual property. With respect to enforcement, however, the rights-based convention offer little affirmative protection, other than the general obligation to provide for effective and adequate protection of the IP rights. To provide more explicit enforcement of IP rights, the United States looked to the trade leverage that could be applied in the trade-related context and specifically to the dispute settlement mechanism of the GATT.

Articles 63 and 64 of the TRIPS Agreement cover dispute prevention and settlement.

Dispute Prevention

The transparency provision of Article 63 will become effective without delay, one year after entry into force of the overall agreement concluding the Uruguay Round.[84] To facilitate enforcement, Members must publish laws, regulations and final judicial or administrative rulings of general applicability to protection of IP rights.[85] If publication is not practicable, the same information must at least be publicly available in a national language.[86] Special agreements between governments or agencies of Members relating to the provisions of the TRIPS Agreement shall also be published.[87] All of this information shall also be reported to the TRIPS Council, unless the Council waives the obligation because a common register of information has been established with WIPO.[88]

Dispute Settlement Mechanisms

Article 64 incorporates by reference the provisions of Articles XXII and XXIII[89] of the GATT 1994, and, most importantly, the elaboration of the dispute settlement mechanisms set out in the Understanding on Rules and Procedures Governing the Settlement of Disputes (hereafter, the Dispute Settlement Understanding or "DSU").[90]

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[84] Under the existing schedule, that date would be July 1, 1996.

[85] GATT 1994, Art. 63(1).

[86] *Id.*

[87] *Id.*

[88] GATT 1994, Art. 63(2).

[89] The articles referenced here are part of the overall GATT agreement, to which the TRIPS Agreement is appended.

[90] The Dispute Settlement Understanding is itself a separate document identified as Annex 2 of the Agreement Establishing the WTO and consisting of 27 sections and 4 appendices. Appendix 1 reiterates that the TRIPS Agreement is subject to the Dispute

The DSU became applicable upon entry into force of the TRIPS Agreement (i.e., January 1, 1996), except that its application to so-called "non-violation" complaints[91] under subparagraphs 1(b) and 1(c) of Article XXIII of the overall GATT is delayed for 5 years after the World Trade Organization took effect (i.e., until January 1, 2000).[92] During this five-year delay, the TRIPS Council shall examine the "non-violation" complaints involving IP measures and submit recommendations for resolution to the Ministerial Conference for approval.[93] The Ministerial Conference will act by consensus. Its approved recommendations shall be effective for all Members without further formal process.[94]

This delay in applying the DSU to "non-violation" complaints disappoints some United States IP industries. They would have preferred the ability to invoke dispute settlement procedures immediately in cases of "non-violations" because, they argue, industrialized countries are more likely to use measures that fall in this category (that is, the measure does not clearly conflict with the TRIPS but is applied in a way that nullifies or impairs a benefit or impedes a stated objective). Industrialized countries, these interests argue, have no need for a delay in application of the DSU.

Apart from the five-year delay related to "non-violation" complaints, the important dispute settlement mechanisms of the DSU are available to any Member upon entry into force of the TRIPS Agreement. They apply at that point to failures to carry out the obligations of the TRIPS. This report includes only a brief summary of the main features of the DSU.

The DSU establishes a hierarchy of solutions to trade disputes with the objective of securing a positive, non-contentious outcome. At the first level, parties to a dispute seek a mutually acceptable solution through consultation,

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Settlement Understanding. Unless otherwise stated, all references to a section in Part VI of this CRS Report refer to a section of the Dispute Settlement Understanding. The citation will be given as "DSU, Section___."

[91] "Non-violation" complaints refer to trade disputes involving measures that are not a violation of the obligations of the GATT. Nevertheless, a Member may assert that the application of the measure against it nullifies or impairs a benefit under a covered agreement or impedes a stated objective of a covered agreement (a "1(b) complaint") or that nullification or impairment of a benefit or attainment of an objective is impeded by the existence of any situation other than a violation or the application of the measure (a "1(c) complaint"). In effect, "non-violation" complaints relate to transgressions of the "spirit" of the covered agreement rather than its "letter," or may relate to matters about which the agreement is somewhat ambiguous or lacking in detail.

[92] The WTO took effect on January 1, 1995.

[93] GATT 1994, Art. 64(3).

[94] *Id.*

good offices, and mediation, if agreed.[95] If this effort does not succeed within 60 days, a party may request establishment of a panel, to hear the case, receive written submissions, and make recommendations to the Dispute Settlement Body ("DSB").[96] The panel process includes an interim review stage during which the parties may comment on the panel's draft report summarizing the facts and arguments but omitting findings and conclusions.[97] The final panel report should be submitted to the DSB and Members within six months of the panel's establishment.[98]

The DSB should adopt the panel's report within 60 days of its issuance, unless one of the parties makes formal appeal to the Appellate Body or the DSB by consensus rejects the panel report.[99]

The Appellate Body is a standing review body, comprised of seven recognized experts in law, international trade, and the subject matter of the relevant agreement, who serve in rotation and in their individual capacities.[100] The Appellate Body reviews issues of law and renders anonymous opinions that uphold, modify, or reverse the legal findings and conclusions of the panel.[101] The report of the Appellate Body shall be adopted by the DSB and unconditionally accepted by the parties unless, within 30 days, the DSB decides by consensus not to adopt the report.[102] Generally, the period from establishment of the panel to action by the DSB shall not exceed 9 months if there is no appeal or 12 months if appeal is taken to the Appellate Body.[103]

Time periods are also set for implementation of an adopted report. Members are expected to comply promptly,[104] although special attention must be paid to the problems of developing country Members.[105] Ordinarily, the DSB will recommend withdrawal of the measure found inconsistent with the TRIPS Agreement. If there is further disagreement about the nature of the

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[95] DSU, Section 3.7.

[96] DSU, Sections 4.7, 6, and 7.

[97] DSU, Section 15.

[98] DSU, Section 15.3.

[99] DSU, Section 16.

[100] DSU, Section 17.

[101] *Id.*

[102] DSU, Section 17.14.

[103] DSU, Section 20.1.

[104] DSU, Section 21.1.

[105] DSU, Section 21.2.

corrective measures, the dispute settlement procedures can be applied, usually by reference to the same panel if possible,[106] which renders its report in 90 days.[107]

As temporary solutions when corrective action is not taken within a reasonable time, the parties may agree to compensation or as a last resort the DSB may authorize the complaining party temporarily to suspend trade concessions.[108]

The DSU contains detailed provisions about resort to suspension of trade concessions. In essence, the following hierarchy applies: suspend concessions first in the same trade sector in which the offending measure is applied;[109] if this is not practicable or effective, suspend concessions in other sectors under the same Agreement;[110] if the foregoing is not practicable or effective and the circumstances are serious enough, suspend concessions under another Agreement.[111] Whatever suspension is proposed must be approved by the DSB before it is applied, and the suspension shall be equivalent to the level (i.e., degree) of nullification or impairment.[112]

Ordinarily, the DSB shall authorize suspension within 30 days of the expiration of the reasonable time set for withdrawal of the offending measure, unless the DSB decides by consensus to reject the request for authority to suspend concessions.[113] If the Member who must take corrective action objects to the suspension, the matter is referred to binding arbitration.[114] The arbitrator's decision is final,[115] and the DSB must then authorize suspension if consistent with the arbitrator's decision, unless the DSB rejects the request for suspension by consensus.[116] The suspension is temporary and applies only until the corrective measures are implemented or another solution is reached

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[106] DSU, Section 21.5.

[107] *Id.*

[108] DSU, Section 22.1.

[109] DSU Section 22.3(a).

[110] DSU, Section 22.3(b).

[111] DSU, Section 22.3(c).

[112] DSU, Section 22.4.

[113] DSU, Section 22.6.

[114] *Id.*

[115] DSU, Section 22.7.

[116] *Id.*

that is mutually satisfactory to the parties.[117]

Arbitration

While the dispute settlement procedures allow or require arbitration to resolve certain deadlocks in the process, Section 25 of the DSU also posits "expeditious arbitration" as an alternative to the entire dispute settlement process.[118] Arbitration as an alternative means of dispute resolution occurs only by mutual agreement of the parties, who will notify the other Members of the arbitration.[119] Although the decision to arbitrate is voluntary, the parties are expected to agree to abide by the arbitration award.[120] Once an arbitration award is made, the implementation procedures and the provisions of the DSU on compensation and suspension of concessions apply.[121]

Multilateral Versus Unilateral Action

The DSU contains provisions in Section 23 designed to strengthen the commitment to multilateral action to resolve trade disputes in preference to unilateral action. A key question for United States observers is the extent to which these provisions inhibit the United States from taking unilateral action under Section 301 of the 1974 Trade Act, [122] for example. The Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters ("IFAC-3") took the position that the United States may continue to employ measures such as Special 301, Section 301, and GSP (generalized system of preferences), but acknowledged that the extent to which the sanctions of domestic law can be invoked will be more limited after the United States accepts the GATT 1994 Agreements.[123]

During the first two years of the existence of the World Trade Organization, the United States has continued its practice of unilateral

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[117] DSU, Section 22.8.

[118] DSU, Section 25.1.

[119] DSU, Section 25.2.

[120] DSU, Section 25.3.

[121] DSU, Section 25.4.

[122] The Trade Act of 1974, Pub. L. 93-618, January 3, 1975, 88 Stat. 1978; codified as title 19 U.S.C. §§ 2101-2495. For additional analysis of United States trade policies concerning intellectual property, *see* Harrison, "Intellectual Property Rights and U.S. Foreign Trade," CRS 96-847 E.

[123] "Report to Congress on the Uruguay Round" by the Industry Functional Advisory Committee on Intellectual Property Rights for Trade Policy Matters, January 10, 1994, 28pp. (Unpublished Memorandum) at page 6.

enforcement under the "Special 301" provisions,[124] but has also initiated several WTO dispute settlement proceedings in the field of intellectual property.[125]

Section 23.1 of the DSU provides that Members who seek redress of a violation of obligations or of other measures resulting in nullification or impairment of benefits or an impediment to the attainment of an objective of the covered agreements "shall have recourse to, and abide by, the rules and procedures of this Understanding."[126] Even more explicitly, Members shall not make a determination that a violation has occurred, that benefits have been nullified or impaired, or that attainment of an objective of a covered agreement has been impeded *except* "through recourse to dispute settlement in accordance with the rules and procedures of this Understanding...."[127] The Members also agree explicitly to follow the procedures of the DSU on implementation of corrective measures, decision-making by the DSB, compensation as a temporary solution, and DSB authorization to suspend trade concessions.[128]

Once the Dispute Settlement Understanding becomes fully effective in the year 2000, the extent to which unilateral action can be taken to remedy a trade practice may become a contentious issue for the United States. On the other hand, once the DSU is fully effective, if the United States has a solid grievance and is not itself guilty of violating the trade agreements, the United

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[124] Within the context of Section 301 investigations, the USTR has initiated WTO dispute settlement actions against Portugal, Turkey, India, and Pakistan for their failure to fulfill certain WTO obligations. The dispute with Portugal concerns its failure to apply the 20 year term to patents in effect before June 1995. Pakistan and India have failed to establish the so-called "mailbox" mechanism for transitional filing of patent applications, pending enactment of appropriate patent protection for pharmaceutical or agricultural products in developing countries. Turkey maintains a discriminatory local tax on box office revenues from exhibition of foreign films but not on domestic films.

[125] In February 1996, the United States Trade Representative (USTR) initiated a dispute settlement proceeding against Japan for its failure to protect the rights of U.S. performing artists and record producers who recorded from 1946-1971. The TRIPS Agreement establishes a 50 year minimum term for protection of sound recordings, which the United States believes must be applied retroactively. Japan recently adopted a 50 year term for sound recordings, but gives protection only to recordings created in 1971 or later. In March 1996, the USTR initiated a WTO proceeding against Canada because of discriminatory practices related to publication of Canada-specific editions of foreign (mainly United States) magazines. After first banning the importation of foreign Canada-specific editions, in December 1995 Canada imposed an 80 percent excise tax on advertising in those magazines. Canada also disallows an income tax deduction to Canadians who advertise in such magazines, and the postage rates for magazines not produced in Canada by Canadian-owned companies are higher than the rates for Canadian magazines.

[126] DSU, Section 23.1.

[127] DSU, Section 23.2(a).

[128] DSU, Section 23.2.

States can invoke the strong enforcement mechanisms of the DSU and expect to resolve the trade grievance within a reasonable time period. In using these procedures, the United States can bring to bear the multilateral power of the GATT Members in achieving a solution which should ultimately prove more satisfactory and lasting than solutions imposed by unilateral action.

VII. CONCLUSION

The enforcement procedures of the GATT 1994 TRIPS Agreement constitute the most detailed procedures of this kind in a worldwide agreement dealing with intellectual property rights.[129] They cover administrative and judicial procedures, civil and criminal penalties and procedures, and customs enforcement actions. Articles 41-61 of the TRIPS Agreement represent a major achievement in effective and adequate enforcement of intellectual property rights. They also impose appropriate due process constraints and facilitate free circulation of legitimate goods. When these provisions are fully implemented the free trade zone among WTO Members will allow free circulation of legitimate goods while providing an effective barrier of protection against importation of pirated and counterfeit goods.

While the GATT-WTO enforcement provisions clearly represent a major achievement, some interests in the United States believe the provisions fall short of fully effective protection in three ways. First, the commitment to effective border enforcement is applicable immediately after initial customs clearance of the goods;[130] border enforcement would be more effective if the Agreement required direct stoppage of infringing imports.[131] Second, the TRIPS Agreement explicitly provides there is no obligation to protect against parallel importation (lawfully made goods which are not authorized for distribution in the country where importation is sought). Many American rights holders favor protection against parallel importation, but the interest of consumers in acquiring quality goods at the lowest price constitutes an argument for allowing free circulation of gray-market goods.[132] Third, the implementation delays extended to developing, transition economy, and least-

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[129] The TRIPS Agreement substantially duplicates the enforcement provisions of the NAFTA. Its impact is greater because the WTO is a worldwide organization whereas the NAFTA applies to three countries.

[130] GATT 1994, Art. 50.

[131] In many cases, customs authorities will act directly to detain allegedly infringing goods or act immediately upon presentation of a *prima facie* infringement case by the rights holders. The TRIPS Agreement gives a country, however, the ability to wait until the goods are initially released by customs. In these situations, the rights holder, assuming it knows of the infringing goods, will have to act immediately in order to get the authorities to suspend release of the infringing goods before they are marketed within that country, at which point it will be more difficult to halt distribution of the infringing goods.

[132] United States copyright law accords protection against parallel importation.

developed countries, which are the countries where commercial scale piracies are most prevalent, mean that effective enforcement of intellectual property rights is postponed 5-11 years.

Nevertheless, the TRIPS Agreement sets tough enforcement standards, which will be implemented worldwide after a few years. That is a major policy achievement by itself. In addition, the enforcement mechanisms established by the Dispute Settlement Understanding should result in appropriate resolution of intellectual property trade disputes within a reasonable time frame. Overall, the GATT 1994 TRIPS enforcement standards, in combination with the dispute settlement procedures, substantially satisfy the policy objectives of the United States in this field.